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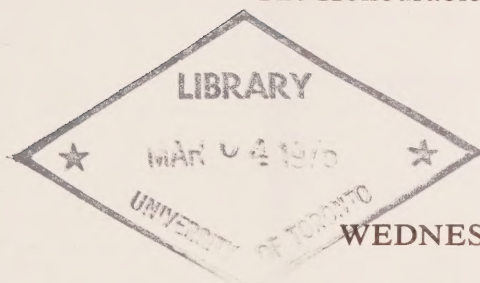
FIRST SESSION—THIRTIETH PARLIAMENT
1974-75-76

THE SENATE OF CANADA

PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON

BANKING, TRADE AND COMMERCE

The Honourable SALTER A. HAYDEN, *Chairman*



Issue No. 75

WEDNESDAY, FEBRUARY 11, 1976

First Proceedings on:

“Canadian Textile Problems”

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Barrow	Hays
Beaubien	Laird
Buckwold	Lang
Connolly	Macnaughton
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
Everett	Smith
*Flynn	(Colchester)
Haig	Sullivan
Hayden	Walker—(18)

**Ex officio* members

(Quorum 5)



Order of Reference

Extract from the Minutes of the Proceedings of the Senate, May 27, 1975:

"Pursuant to the Order of the Day, the Senate resumed the debate on the inquiry of the Honourable Senator Desruisseaux calling the attention of the Senate to Canadian textile problems.

After debate,

The Honourable Senator Asselin, P.C., moved seconded by the Honourable Senator Choquette, that the subject-matter of the inquiry be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, February 11, 1976
(97)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade & Commerce met this day at 9:30 a.m.

SUBJECT: *Canadian Textile Problems.*

Present: The Honourable Senators Hayden (*Chairman*), Beaubien, Buckwold, Connolly (*Ottawa West*), Cook, Desruisseaux, Haig, Laird, Macnaughton and Molson. (10)

Present, not of the Committee: The Honourable Senators Bell, Lafond and Langlois. (3)

The Committee then proceeded to the examination of the above subject during which the following witnesses appeared.

WITNESSES:

Mr. Ian C. Stewart, Chairman of Canadian Textiles Institute & President, Domstrand Limited;

Mr. J. I. Armstrong, President, Canadian Textiles Institute;

Mr. R. H. Perowne, Chairman & Chief Executive Officer, Dominion Textile Ltd.;

Mr. B. G. Côté, President & Chief Executive Officer, Celanese Canada Ltd.;

Mr. D. Taran, Vice-Chairman, Canadian Textiles Institute & President, Consolidated Textiles Ltd.; and

Mr. N. Hackel, President, Associated Textiles of Canada Limited.

The following witnesses were also present:

Mr. T. R. Bell, President & Chief Operating Officer, Dominion Textile Ltd.;

Mr. F. P. Brady, Vice-President, General Counsel, Dominion Textile Ltd.;

Mr. G. L. Bruck, Chairman, Bruck Mills Limited;

Mr. A. Davidson, President, Harding Carpets Limited;

Mr. G. Deckelbaum, Vice-President, YarnTex Holdings Limited;

Mr. J. G. Dionne, President, Dionne Spinning Inc.;

Mr. A. J. Fyfe, Vice-President & General Manager, Wabasso Limited;

Mr. E. W. Young, Executive Assistant to the General Manager, Wabasso Ltd.;

Mr. J. H. F. Kenny, President, Hanson-Mohawk Ltd.,

and Rennie Industries Ltd.;

Mr. G. R. Wittman, Director, Fibres Group, DuPont of Canada Limited;

Mr. F. S. Kenny, Director, Government Relations, DuPont of Canada Ltd.;

Mr. G. P. MacPherson, Director, Government Relations, Celanese Canada Ltd.; and

Mr. A. R. Tinker, Chairman of the Board & Chief Executive Officer; Cleyn & Tinker Ltd. and Paton Manufacturing Co. Ltd.

Following discussion, it was *Agreed* that officials from the Department of Industry, Trade and Commerce be requested to appear before the Committee.

At 12:45 p.m. the Committee adjourned until 9:30 a.m., Wednesday, February 18, 1976.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, February 11, 1976.

The Standing Senate Committee on Banking, Trade and Commerce met this day at 9.30 a.m. to consider Canadian textile problems.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, we have before us this morning a great number of witnesses, all of whom will be introduced to you. However, my understanding is that if any one of them wishes to add anything to the discussion which will develop he may do so but will have to come forward in order that we will all have every opportunity of hearing what he is saying. The representative speaking will identify himself by name first. We have at the table a number of the representatives of the industry and all those who are present will be introduced to the committee, following which Mr. Armstrong, who is on my right, will make the opening statement. I think the members of the committee have before them certain briefs. Mr. Stewart, would you introduce the representatives and have them stand as you do so, please?

Mr. Ian C. Stewart, President, Domstrand Limited, and Chairman, Canadian Textiles Institute: Thank you Mr. Chairman.

Honourable senators, my name is Ian Stewart and I am Chairman of the Canadian Textiles Institute. I would like to introduce the members of the industry who are here today, and request that they stand as I call their name: F. P. Brady, Vice-President and General Counsel, Dominion Textile Ltd.; B. G. Côté, President and Chief Executive Officer, Celanese Canada Ltd.; A. Davidson, President, Harding Carpets Limited; G. Deckelbaum, Vice-President, YarnTex Holdings Limited; J. G. Dionne, President, Dionne Spinning Mills, Inc.; A. J. Fyfe, Vice-President and General Manager, Wabasso Limited; N. Hackel, President, Associated Textiles Limited; J. H. F. Kenny, President, Hanson-Mohawk Limited and Rennie Industries Ltd.; F. S. Kenny, Director, Government Relations, DuPont of Canada Ltd.; G. P. MacPherson, Director, Government Relations, Celanese Canada Ltd.; R. H. Perowne, Chairman and Chief Executive Officer, Dominion Textile Ltd.; D. Taran, President, Consolidated Textiles Ltd., and Vice-Chairman, Canadian Textiles Institute; A. R. Tinker, Chairman, Cleyn and Tinker Limited, and Paton Manufacturing Company Ltd.; G. R. Wittman, Director, Fibres Group, DuPont of Canada Limited; E. W. Young, Executive Assistant to the General Manager, Wabasso Limited; and J. I. Armstrong, President, Canadian Textiles Institute.

I might say, Mr. Chairman, that Mr. McCarthy, the President and Mr. Newall, the Executive Vice-President of DuPont of Canada, will be appearing before you next week. Thank you.

The Chairman: Honourable senators, Mr. Armstrong, who is on my immediate right and, as you have been informed, is the President of the Canadian Textiles Institute, will make the opening statement. Then other gentlemen who are at the table will have something to add to that statement, or if there is anything requiring supplementary information they will provide it. Of course, we have no rule limiting or inhibiting questions at any time, so I have advised the witnesses that they will have to be prepared for that. Mr. Armstrong, please?

Mr. J. I. Armstrong, President, Canadian Textile Institute: Thank you, Mr. Chairman and honourable senators. With your permission, it is not my intention to read my submission this morning, but, rather, to endeavour to highlight some of the points we have tried to make in it. I will try to bring into focus and into perspective some of the problems facing the Canadian textile industry in terms of our national textile policy, with which we have now had some five and a half years' experience.

Following my opening remarks, as the Chairman has noted, Mr. Taran, Mr. Côté and Mr. Perowne will each make a statement from the point of view of the chief executive officer of one of the major companies in the industry; and then, as a group, we will be delighted to try to answer any questions which you, Mr. Chairman, or members of the committee might wish to put to us.

Before proceeding further, I should like to express to you our appreciation of the interest displayed by the Senate in the problems of our industry, as evidenced in your debate of last April and May. In particular, I should like to congratulate those who took part in that debate for their keen perception of the issues involved. Our job this morning will be much easier against the background of that debate, and, in particular, the contributions of Senator Desruisseaux. To find in Ottawa such a depth of knowledge and perception of the industry and its problems is rather unique, and, as I said earlier, is most welcome.

In May, 1970 a national textile policy was tabled in the House of Commons by the then Minister of Industry, Trade and Commerce, the Honourable Jean-Luc Pepin. As an industry, we were pleased with that statement of policy. We applauded the intention of the government, as announced in it, to provide by means of that policy a sense of direction, a framework, and conditions within which the textile and clothing industries could plan, invest and develop in Canada with a greater degree of confidence than had existed during the previous decade. In essence, the policy was designed to restore an investment climate for the textile and clothing industries in which much of the uncertainty relating to government policies affecting the industry would be reduced.

I think it is important to recognize that the adoption of a textile policy by the government was not casual; it followed a most comprehensive study of the industry. Three

internationally recognized firms of management consultants were involved, from Switzerland, England and the United States; and, following the initial submission to the Cabinet by the industry and the textile labour unions, some two years were devoted to a major study and examination of the efficiency of the industry. Our costs were compared with those of our counterparts in other developed countries and, indeed, in the lesser developed countries of the Third World. This study was thorough and in depth. Consequently, the findings of the government at that time—including Mr. Pepin's statement that the industry in Canada was as efficient technologically as that in any other country, including the low-cost producers—had a solid foundation in fact.

Actually any other conclusion would have been surprising. During the late fifties and the sixties the industry had gone through a long period of consolidation and rationalization. Many mills had closed, others had merged, and the industry, at the time the policy was announced, was lean and highly efficient. In fact, I recall that one of our member companies at that time operated a firm of management consultants in Europe. It was kept busy advising European mills on how best to conduct their operations.

At the time the policy was introduced, there was also an international precedent for it, and there still is. At that time it was the Arrangement Regarding International Trade In Cotton Textiles which had been signed in Geneva by some 23 countries. That was the first international arrangement dealing with a manufactured product, and it came about because it was recognized around the world that international trade in textiles was highly volatile and very important not only to the developed countries of the world but as a means of securing foreign exchange in the developing Third World.

Senator Connolly: Would you say that again, please?

Mr. Armstrong: I said, senator, that this international arrangement regarding cotton textiles, which was signed in Geneva in 1962, was the first international arrangement dealing with a manufactured product. It had become necessary because of the highly volatile nature of international trade in textiles. Textiles are an important product of the Third World countries and their exports to the developed world were causing import problems in the industrial nations. This agreement was signed by the countries at that time as a way, on the one hand, of assisting the developing countries in their exports to the developed world, and, at the same time, of sharing the burden of receiving their imports by the industrial nations. That original arrangement was followed . . .

Senator Laird: Excuse me, Mr. Chairman. What countries are you referring to?

Mr. Armstrong: There were 23 countries.

The Chairman: When you are talking about the importance of the Third World, do you mean because the industry is labour intensive?

Mr. Armstrong: Yes, because the industry is particularly labour intensive in countries like Taiwan, Hong Kong, the Philippines, Singapore, and so on.

Senator Laird: You said 23 countries?

Mr. Armstrong: Yes, at that time.

Senator Laird: Was that confined to countries that were engaged in producing textile products?

Mr. Armstrong: Yes; and it was a nice blend of the developing countries and the industrial nations: the United States, Western Europe, Canada, Australia, and so on, plus Japan and Hong Kong, and most of the developing nations.

Senator Connolly: Did you say that the study pointed the way to the development of new sources of capital in these developing countries?

Mr. Armstrong: No. What it did, really, was to solve the problem which was being created at that time by unlimited exports from the developing countries into the rest of the world. It did that, essentially, by putting some safeguards in place and an agreement among the industrial nations that they should share those exports from the developing countries.

Senator Laird: Is that Geneva agreement in one of your appendices here?

Mr. Armstrong: Extracts are, yes. The full agreement is in the Parliamentary Library. It is a short booklet. I have it with me. The relevant excerpts are in our appendices.

The Chairman: Did the agreement at that time include restrictions on the quantity, the sum total, of exports from those countries?

Mr. Armstrong: Yes. It gave international sanction, if you will, to the imposition of restraints or the negotiation of agreements bilaterally with those countries, limiting the amount of their exports, and providing at the same time for annual increases so that there would always be growth for the developing countries, but not growth in excess of certain limits.

Senator Desruisseaux: Have these arrangements ever been amended in some form?

Mr. Armstrong: Yes, they have. I was going to say, senator, that the original international Arrangement of 1962 was succeeded in 1974 by an International Arrangement Regarding Textiles. The original one was for cotton, because that was the major fibre in those days. As man-made fibres came into the strong position which they now hold, there was an international arrangement negotiated by some 40 or 50 countries in 1973, doing precisely the same thing, providing for access of the products of the developing nations to the industrial nations of the world. It was interesting that the original international arrangement back in 1962 had a special protocol attached to it in which all the signatories recognized the fact that Canada was already accepting a disproportionate volume of low-cost imports. There was formal international recognition of this fact, and we were exempted as a country from the automatic growth provisions in the agreement, simply because we had already taken our share. The other countries agreed to automatic growth each year in their acceptance of low-cost imports, but Canada was exempted from that.

It was against that background of international recognition of the highly volatile nature of international trade in textiles, and a growing and serious malaise in the industry due to the large volume of low-cost imports which we were accepting in Canada, that the government created a textile policy which would:

create the best possible climate for the development in Canada of viable textile and clothing industries.

Before we turn to the developments of the past five years following adoption of the policy, it would perhaps be helpful if I were to review very briefly some of the basic economic facts relating to the industry in Canada, which I am sure formed the basis for the Honourable Senator Desruisseaux's statement during your debate last April that:

the textile industry is a basic and essential industry for any industrialized nation—its disappearance would be economically disastrous.

What are the facts? In terms of employment, the textile and clothing industry employs 207,000, or one out of every eight persons employed in manufacturing in Canada, and the figure is one out of four in the province of Quebec. In the primary textile industry alone, our employment reached a peak of 102,700 in 1973, dropping to 86,000 by March, 1975. Since then there has been a slight improvement. The latest figures I have been able to obtain relate to June, 1975, at which time our employment had reached 90,000.

If we use a reasonable multiplier of three to one to take account of employment in the service and supply industries, there are some 600,000 Canadians directly affected by the fate of the textile and clothing industries in Canada.

The value of our production is \$5 billion a year. Our salaries and wages amount to over \$1.25 billion annually. I should note, en passant, that our wages are now the highest textile wages of any country in the world. They are significantly higher than those in the United States.

In terms of capital investment, \$240 million was invested in 1974 in the primary industry alone; \$1.7 billion over the past decade.

Our price performance has been exceedingly good, in my view. Over the past 10 years, textile prices have increased by an average of 4.5 per cent annually, as compared with 6.4 per cent annually for all manufacturing. Our productivity record is good. There has been an average annual increase in productivity in the industry of 5.1 per cent, which compares with 4.2 per cent in all manufacturing.

More detailed data are set out in the appendices to our submission, but I think that the figures I have just quoted fully support the thesis that a modern, skill-intensive, technologically efficient, innovative textile industry is, or should be, fundamental to Canada's present and future commercial and economic policies.

In dealing with the events of the five years following the adoption of this textile policy in Canada, I should like to say a few words about the Canadian market for textiles and clothing. In 1964 Canadians consumed 589 million pounds of textiles and clothing. By 1973, 10 years later, that figures had almost doubled, to 1 billion pounds, or over 47 pounds per person. Ten years ago, we supplied 64 per cent of the consumption in Canada of textiles and clothing. By 1973 that figure had dropped to 44 per cent. By 1975 we supplied 44 per cent of all the textiles and clothing consumed in Canada; foreign countries supplied the other 56 per cent.

During the six years preceding the adoption of Canada's national textile policy, the share of the market supplied by the Canadian industry declined by 9 per cent. Over the four succeeding years, during three of which the Textile and Clothing Board was in full operation, a further 11 per cent of the market was taken over by imports.

By way of comparison, there are now four to five times the value of textile imports into Canada per capita than into the United States. The United States industry supplies 88 per cent of its home market; the countries of the European Economic Community supply 80 per cent of their home markets; Japan supplies over 90 per cent of its home market. We in Canada have permitted imports to grow at a much higher rate than the growth of the market itself.

Senator Connolly: Without making a project of it, can you tell us what percentage of our imports come from the developing countries and what percentage comes from the industrialized countries?

Mr. Armstrong: In terms of pounds, or units, approximately 55 per cent of our imports now come from the developing countries, the Third World, and 45 per cent from the United States, the EEC and the other industrialized nations.

Senator Connolly: The largest percentage in the last category coming from the United States?

Mr. Armstrong: Yes.

The Chairman: You mentioned that the industry in the United States supplies 88 per cent of the U.S. domestic textile market. Is that accomplished by restriction, by tariffs?

Mr. Armstrong: I was going to deal with that in a moment, Mr. Chairman, if I may.

The Chairman: Very well.

Mr. Armstrong: The open market policy followed by the Canadian government, to the point where we are supplying less than half the market, has had a very serious result in terms of our balance of trade—serious not only for the industry, but for Canada as well. By 1974 our negative trade balance in textiles and clothing exceeded \$1.1 billion, in spite of the fact that exports had more than doubled in the previous five years.

We in the industry do not think for a moment that this import situation was intended by Mr. Pepin, the then Minister of Industry, Trade and Commerce, when he tabled the textile policy in the House of Commons in May, 1970. While it may be reasonable to share the growth of a market with foreign countries—and we agree with that—it is not economically sound, nor does it make sense, in our view, to relinquish all growth, and more, to imports. Mr. Pepin understood that completely.

Why, then has this situation come about? In our submission, we address ourselves to this fundamental question, and we refer at length to the lack of vigorous administration, or real dedication, on the part of the government to achieve the goals set by the policy. We speak of delays, of a feeling, at times, that the government has sought ways to increase low cost imports rather than endeavouring to improve the position of the Canadian textile industry. There are many examples in our brief, and Mr. Taran will be referring to some of them in a few minutes.

With your permission, I should like to refer to an article which appeared in yesterday's *Gazette*. The article is by Alan D. Gray is headed "Apparel import restraints likely to go up this year." In reading this article, I was upset by two or three points made by Mr. Gray. I quote from the article:

In an interview from Ottawa the spokesman also disclosed:

Officials of the Republic of Korea and "fuming against Canada" because of duties prescribed by the government in December on apparel imported from that country. The prescriptions have the effect of raising the landed cost of most items.

What happened? Korea was shipping apparel products to Canada below fair market value and was caught. All it is doing is paying the duty on the fair market value. To do otherwise would be to evade the provisions of our Customs Act.

Senator Connolly: Korea was dumping.

Mr. Armstrong: Yes. If any one of us was caught coming across the border with a bottle of liquor without having paid duty on it, we wouldn't fume; we would expect to pay the proper duty.

The article goes on to say:

"The Koreans may take us to GATT... on this issue," the industry department source reveals.

All right, let Korea do that. Continuing:

Canadians are concerned about trans-shipments which are alleged to be occurring through Hong Kong. Special steps have been taken to enable the department of industry to look into the problem, and an investigation is under way.

These trans-shipments through Hong Kong have been going on for two years. There is ample provision in the Customs Act for dealing effectively with them, and they have not been dealt with. The article states that the investigation is still under way. It goes on to say:

Canada hopes to negotiate restraints with the Philippines on acrylic yarn. It would be the first such arrangement between the two countries, and the department of industry official characterizes the situation as "a dicey one."

Let me tell you the facts about the acrylic yarn situation in the Philippines. Acrylic yarn is a very sensitive item in the industry. Already one company has closed, laying off two or three hundred people in the Eastern Townships, and others are on the verge of closing. The Textile and Clothing Board has held an inquiry and has found that these imports were causing serious injury. As a result, it made the recommendation that bilateral agreements be negotiated with Korea, Taiwan and Japan to limit the import of acrylic yarns. In the meantime, the market has fallen to the point where, if there was not a single pound of acrylic yarn imported over the next number of months, it would take until next August to get rid of the inventories that are now in the mills.

Against that background, the Philippines, which has no export performance whatever into Canada in acrylic yarn, we suddenly discover, has been granted import permits to bring into Canada over one million pounds of acrylic yarn this year. We are told by an official of the department, as quoted in the paper, that to negotiate a restraint arrangement with the Philippines is a very "dicey situation." If it were not so serious I think it would be ludicrous. The Philippines are suddenly exporting for the first time millions of pounds of a very sensitive product into Canada, and all we can say is that to have something done about it will be difficult, that it is a very "dicey situation."

The Chairman: What do they mean by "dicey"?

Mr. Armstrong: That it is problematical, questionable, I should think, whether we will be able to negotiate something with the Philippines.

The Chairman: Or does it mean it will create a lot of problems?

Mr. Armstrong: Create a lot of problems too.

The Chairman: And maybe antagonism?

Mr. Armstrong: Yes. There is one further point in the article to which I should like to make reference:

It will be difficult to subject leather garments to restraints since they are not made from fabrics and are therefore not covered by the international agreement. The matter is under review by the Textile and Clothing Board.

What this tells me is that where we have an international arrangement covering textiles it limits us somewhat in what we are able to do. I agree with that, but surely where there is no international arrangement—there is no international sanction preventing Canada from taking whatever action seems appropriate in the circumstances. I do not act for the leather outer wear industry by any means, but leather garments are the subject of a current review by the Textile and Clothing Board. If the Textile and Clothing Board find that imports are causing serious injury to that industry, then I would expect the government to do something about it, and to say that they cannot because there is no international arrangement on leather garments I think is just...

Senator Molson:—nonsense.

Mr. Armstrong:—nonsense, yes. That was the word I was searching for.

Senator Connolly: What you are suggesting in that case, I suppose, is that a tariff should be put on?

Mr. Armstrong: A tariff perhaps. I do not know the facts of the leather garment case, but if leather garments are pouring in from communist China or some place, we should negotiate with communist China and say that there are so many leather garments of theirs that we will take next year.

Senator Desruisseaux: What communications were there with the department in connection with the arrangements being made outside, or were there any at all?

Mr. Armstrong: There have not been. I will deal with that in a few moments. Essentially, we have felt that our credibility in Ottawa is very important. I have been in the business of government relations, if you like, and in textiles for 30 years; we have done our very best to maintain a very high level of credibility, and for many years we had good discussion and dialogue going with the government—we did not always agree, but we had a good dialogue. In recent years this has become much more difficult.

Senator Desruisseaux: How recent?

Mr. Armstrong: The last three or four years perhaps. We have found that we can always get a meeting in Ottawa by phoning and saying that we would like to find out what has gone on, and then we are invited to come and receive a report on what has taken place. However, there is no discussion whatsoever really. We are not provided with an

opportunity to present our views in advance of an event. We are entitled, apparently, to appear here and to receive a report on what has actually taken place. I go into that a little more fully later on in these remarks.

Senator Cook: You speak of putting on a tariff. Are the government's hands restricted in any way in putting on tariffs?

Mr. Armstrong: Yes. In increasing a tariff the government's hands are restrained by the General Agreement on Tariffs and Trade. The bound items in our tariff cannot be raised. However, even if the tariff on textiles applying to goods imported from South Korea were doubled, it would not have any effect. What we need are quantitative measures.

Senator Cook: You say that you expect a tariff to be put on.

Mr. Armstrong: It is not a tariff, because it will not do any good against some countries to which I have been referring. Let me digress for a moment. I have a Korean suit that I bought in a retail store in Montreal last summer. I paid \$77 for it, retail. It is a hand-tailored suit worth every cent of \$250 or more; it is a pure worsted fabric, beautifully tailored. I bought that suit for the purposes of showing it to some of the officials in Ottawa with whom we were debating this issue. I wore it to Ottawa and showed it to an official in the Department of Industry, Trade and Commerce, who said, "That is very interesting, because I watched the ladies make those suits in South Korea when I was there a few weeks ago. I watched and timed the lady who finished your jacket; it took her an hour and ten minutes to do the handwork of finishing that particular jacket. She was paid on a piecework basis and got 14 cents per jacket." That is for an hour and ten minutes' work.

There are now restraints on the volume of suits allowed to be imported from Korea; it is 165,000 units this year. Our interest in that is that 165,000 suits is half a million yards of worsted fabric. Mr. Tinker, who is sitting over here, is producing worsted fabrics in Huntingdon. Not only are fabrics coming in by millions of yards, but the suits have been pouring in. For the moment the suits are under restraint, but I point out that there is no way that any industry, whether it is textiles or any other industry, in Canada, the United States or any other industrial nation with our standard of living, can possibly compete with a country where a lady, a skilled tailor, can take an hour and ten minutes to finish a jacket and be paid 14 cents; there is just no way.

Senator Cook: Is there any restriction on the government imposing restraints?

Mr. Armstrong: No, there is none. The International Textile Arrangement specifically provides the means by which they may do that; our own textile policy says you can do it, but it has not been done effectively.

Senator Macnaughton: Which departments of government does the industry deal with? Would you name them?

Mr. Armstrong: The principal department is the Department of Industry, Trade and Commerce; with respect to the textile policy, that is the department. We deal with the Department of Finance in other matters, with National Revenue and the Department of Consumer and Corporate Affairs. However, as far as the problems of the industry to

which we are making reference are concerned, that is the Department of Industry, Trade and Commerce.

Senator Desruisseaux: What percentage of textiles is subject to tariff presently?

Mr. Armstrong: Six per cent of all textiles and clothing imported into Canada is subject to some form of quantitative restraint. To put that in perspective, in the United States some 70 per cent of all imports of textiles and clothing is subject to some form of quantitative restraint, whether it be a quota, a negotiated export restraint agreement or otherwise. In Canada that figure is six per cent. At the time the textile policy was announced it was 15 per cent. However, our restraints have been dropping over the years instead of increasing.

Senator Connolly: How do they drop?

Mr. Armstrong: They have dropped because the government has said that we no longer need a restraint on, for example, polyester cotton fabrics from China, so they drop instantly.

Senator Connolly: What do they do? Do they cancel the agreement?

Mr. Armstrong: Cancel the agreement.

Senator Molson: It becomes wide open.

Mr. Armstrong: Mr. Taran will have some examples of that. In August 1974 we dropped an arrangement we had with Korea respecting the export to Canada of nylon filament fabrics because Korea had not been shipping for a few months; suddenly they booked five million yards of orders in five weeks in Canada. I will let that story come from Mr. Taran, who is directly involved with it.

Senator Cook: Do you have any input before these decisions are made?

Mr. Armstrong: Not really.

Senator Bell: Are these bilateral arrangements between other countries and our country?

Mr. Armstrong: These are bilateral agreements supervised by the International Textile Arrangement in Geneva. There has been set up in Geneva a Textile Surveillance Body that supervises the bilateral agreements that we and other countries make with the low cost producers. A low cost producer who feels aggrieved because of some arrangement that may have been extracted from him is entitled to go to Geneva and make his views known. By the same token, we must go to Geneva, through government officials, and explain why it was, what prompted us and what were the facts behind the arrangement we made with, for example, Taiwan, Hong Kong or wherever. It is a bilateral arrangement.

The Chairman: Are there escape clauses?

Mr. Armstrong: There are escape clauses. Under the International Textile Arrangement, Article 3, we are entitled, in cases where imports are threatening serious injury, to negotiate export restraints with the offending country.

The rules by which that is done, are set out in the agreement. If we are unable to reach an agreement with the offending country, we are enabled under the international arrangement and the international rules to apply

quotas unilaterally in Canada. Then, the whole situation is argued out before the textile surveillance body.

Senator Laird: You are talking about the Geneva agreement?

Mr. Armstrong: Yes.

Senator Laird: Is the United States a party to that?

Mr. Armstrong: They certainly are. I have in my files a copy of the United States agreement with Japan. It covers 88 pages. There are 14 pages of restricted textile and clothing categories, and there are quantitative restraints on how much can enter the United States. We will be negotiating with Japan within the next two weeks. We have five isolated items on the table which we are going to be talking about. The way our policy operates, we could negotiate with Japan on drapery fabrics, for example, but not on drapes. There is very little added value. If we close the door on drapery fabrics, then the drapes pour in.

Senator Laird: I have one more question, if I may, before you go on. You speak of a number of meetings which were held in Ottawa. Were those meetings exclusively with civil servants?

Mr. Armstrong: Yes, they were.

Senator Laird: I had assumed so.

Senator Macnaughton: Mr. Chairman, could I follow up on that point?

The Chairman: Yes, certainly.

Senator Macnaughton: These decisions are made and announced without consultation, or only after consultation?

Mr. Armstrong: Normally without consultation. As an example, we negotiated an arrangement with Taiwan last October and we were given the details of that a few weeks ago.

Senator Cook: Who do you mean by "we"?

Mr. Armstrong: I mean the industry were given the details of this arrangement with Taiwan some weeks ago, but certainly after the event. We did not know prior to the event that the negotiations were going to take place with Taiwan.

Senator Cook: When you say, "We negotiated with Taiwan," do you mean the government?

Mr. Armstrong: Yes, the government; I beg your pardon.

Senator Connolly: Do you mean to say the industry is not consulted before negotiations of this character are undertaken?

Mr. Armstrong: Not really. We are sometimes asked for some statistical input, some raw data which the Department of Industry, Trade and Commerce massages and puts together, and they form their own conclusions on what that data tells them and go ahead and negotiate on that basis.

Senator Molson: Do they tell you why they are asking for that information?

Mr. Armstrong: Sometimes, yes. However, we have a system, with the Department of Industry, Trade and Commerce, for the exchange of statistics and so on. Very

seldom though are we ever asked for our interpretation of what the statistics tell us. This is one of our main objections to the way the policy is being carried out.

Senator Connolly: Mr. Chairman, could I ask a couple of questions on perhaps a deeper point?

The Chairman: Yes, go ahead.

Senator Connolly: I will ask this question first. When you discuss the problems of the industry and seek some relief from the government, is it a fact that in this day and age, unlike what might have been done historically, you do not look for further tariff protection?

Mr. Armstrong: That is right, we do not.

Senator Connolly: So that the alternative method of dealing with this problem for your industry is making these bilateral arrangements with countries which can disaffect the industry in Canada.

The Chairman: Or quotas.

Senator Cook: Yes, restraints.

Senator Connolly: Quotas, I see.

The Chairman: Which are imposed unilaterally.

Mr. Armstrong: We believe we are the odd man out. The United States, the EEC, Australia and other developed nations of the world are able to either negotiate restraint agreements, which basically is what the United States does, or impose quotas, which is basically what the EEC countries do. Growth is provided for the developing nations at the rate of 6 per cent a year. Six per cent growth, based on 12 per cent of the market, is a lot different from 6 per cent growth based on 50 per cent of the market, which is the case in Canada.

Senator Connolly: The quota system is unilateral action by the importing country?

Mr. Armstrong: Yes, it is.

Senator Connolly: The bilateral arrangement, of course, involves both parties.

Mr. Armstrong: That is correct.

Senator Connolly: Has Canada adopted both methods of protecting its industry?

Mr. Armstrong: In 90 per cent of the cases we have followed the negotiation method, arriving at a bilateral agreement. In two or three cases we have applied quotas unilaterally, where that became essential.

Senator Connolly: What is the authority for Canada to impose quotas?

Mr. Armstrong: The textile policy, for one, and the Export & Import Permits Act permits it.

Senator Connolly: I see. That is the legislative authority?

Mr. Armstrong: That is the legislative authority, yes.

Senator Cook: To what extent do the restraints govern. Do they just apply to increases in the market or do they apply to the share the country already has?

Mr. Armstrong: The restraints that are negotiated normally provide for at least a 6 per cent increase on a base.

For example, there was a restraint with Japan two years ago for 1,000 units. The following year the minimum would be 1,060 units. The following year it would be 6 per cent compounded, and that is the basis of the negotiations.

The problems arise when Japan builds up a tremendous quota over the years. As an example, in polyester fabrics their annual quota is up around 19 million or 20 million pounds. The Canadian industry is only supplying 25 per cent of that market.

Senator Cook: How do you arrive at that quota?

Mr. Armstrong: Japan has a quota of, say, 20 million pounds and sometimes they do not use it.

Senator Cook: How does it build up a quota?

Mr. Armstrong: It builds up a quota by performance in the marketplace. In the Philippines, for example, they had no performance, as I mentioned, in acrylic yarn. Suddenly they have import permits to permit them to ship one million pounds into Canada. Recommendations to be made by the Textile and Clothing Board very shortly will have some effect on this. We cannot let the Philippines ship another million pounds in because the industry in Canada is in a very difficult situation at the moment.

Senator Beaubien: Mr. Armstrong, is this one million pounds fabricated in the Philippines? Do they make it?

Mr. Armstrong: Yes, they do.

Senator Beaubien: Why have they never exported to us before?

Mr. Armstrong: They have been exporting to other places. As those countries grow, there is new machinery going in all the time.

The Chairman: What about raw material? Do they get the raw material from Canada?

Mr. Armstrong: No, they do not. They normally get their raw material from Japan or other Far Eastern sources.

Senator Desruisseaux: Mr. Chairman, may I ask Mr. Armstrong what he knows about the guidelines for restraints? What are the guidelines?

Mr. Armstrong: Under the international arrangement, if there is serious injury or threat caused by imports, then you are entitled to negotiate with the offending country under certain guidelines, the base period for the negotiation of exports to Canada of the product in question being the first 12 of the 14 months preceding the commencement date of the negotiations. This means that if a country has built up a performance in that 12-month period and has shipped in goods at a greatly accelerated rate, they have a high base and that becomes cast in concrete. Certainly no agreement is going to be reached at a lower level; it is reached at that high level. From then on there is an increase granted each year. That is basically the way it operates.

Senator Laird: How does this tie in with GATT?

Mr. Armstrong: This is all approved under the International Textile Arrangement, which is a GATT arrangement. It is the only one, as I say, for a manufactured product, because textiles and clothing are an exceedingly volatile industry in any country in the world. All the

countries face the same problems, so they have made an arrangement on how to deal with it. We are not using the arrangement, in my opinion.

Senator Desruisseaux: Was the textile industry consulted in connection with the last GATT arrangements?

Mr. Armstrong: We were consulted in 1973 at the time this arrangement was being negotiated. This year will be the first major review and a decision will be taken in the GATT this year as to whether this agreement is going to be continued or not. This is a very important item for Canada and the United States.

We have had no consultation with the government. We believe that the industry should, at least, be in the corridors in Geneva and be available to discuss the situation with our negotiators. Certainly, I know that the Australians are there. I have a close connection with my counterpart in Australia. They go to Geneva and are consulted by their government. As a matter of fact the industry is represented at the meetings which take place. In the United States there is a close rapport between the industry and the government. We do not have that as yet.

The Chairman: Have you made any requests?

Mr. Armstrong: Just two weeks ago I raised this issue and the answer was not too satisfactory. However, we are continuing to press the issue, and I can assure you, Mr. Chairman, that when this subject is discussed in Geneva the industry will be there, whether it is invited or not. We hope we will be invited and that there will be a dialogue and a discussion.

What we would like to see, and I am sure Jean-Luc Pepin thought this when he developed the policy, is a team effort among employees, management and government. We want a team effort, with one puck on the ice, and everybody working towards what is best in Canada's interest. We recognize that the decision of what is best in Canada's interest should be a government decision, but we would like to work as a team and not to think that there are two or three pucks on the ice.

Senator Connolly: What is the situation when you are confronted in Canada with a flood of foreign material? I gather you say that very often it is a surprise to you, first of all, to find out that this has happened. Then, having seen it happen, what is your remedy? Do you go to the Clothing and Textile Board and complain?

Mr. Armstrong: Yes.

Senator Connolly: Then how slow or fast a process is that?

Mr. Armstrong: We have no real complaints against the Textile and Clothing Board in terms of delay, because we recognize that the board, to perform its functions properly, must take into account the viewpoints of consumers, importers, exporters, foreign governments and so on.

Senator Connolly: It is a fairly lengthy process.

Mr. Armstrong: It is a fairly lengthy process, yes, and the board does as well as possible to keep it within limits.

Senator Connolly: That is the only safety valve you have?

Mr. Armstrong: That is right.

Senator Connolly: What you are looking for is another safety valve at an earlier stage, namely, before an agreement is negotiated.

Mr. Armstrong: We would like to be able to go to the Textile and Clothing Board and get an immediate answer on a situation that is worsening daily, and then not have interminable delays of six to eight months, only to have recommendations of the board watered down, diluted, or not put into effect at all in some cases.

Senator Connolly: I understand that your argument now is that long before a flooding of material takes place, long before you go to the board, indeed, at an earlier stage, before the import permit is granted, you should be consulted. That is your argument, is that right?

Mr. Armstrong: That is right. We would like a comprehensive arrangement with exporting countries, the same as the United States has, really.

Senator Connolly: It seems to me that you are not so much arguing for a comprehensive arrangement with outside countries as you are arguing for a better arrangement with government in Canada before negotiations take place. Is that right?

Mr. Armstrong: If we had a better arrangement with government in Canada, more of a dialogue with government in Canada, I think many of the problems we mention in our brief would be non-existent.

Senator Laird: You are not complaining about the board?

Mr. Armstrong: No.

Senator Laird: It is somewhere after the board that the delay takes place.

Mr. Armstrong: The interdepartmental committees become involved in the act and months pass. I cannot say as a certainty, but I believe that the interdepartmental committees on occasion review the facts which the board has found to be facts. The board is a fact-finding body. I do not think any government bureaucrat, or bureaucracy in general, should look over the board's shoulder as to findings of fact. I really do not think they should do that, but I believe they do.

Senator Laird: It is just like the courts in a jury case.

Senator Molson: Do you not think they have a certain suspicion of the business world anyway in this element? Do you not find some suggestion of that occasionally when you visit them or talk to them?

Mr. Armstrong: We find many suggestions of that, and, because we make the effort we do to maintain credibility and never knowingly mislead any government official, it is annoying.

Senator Molson: Mr. Armstrong, earlier in your opening statement you said that the efficiency of the Canadian industry was high, that productivity was above average and that our wages exceeded those of any other textile industry in any other developed country.

Mr. Armstrong: That is correct.

Senator Molson: I assume that our fixed costs would not be lower than any other developed country.

Mr. Armstrong: I would ask Mr. Perowne to answer that question.

Mr. R. H. Perowne, Chairman and Chief Executive Officer, Dominion Textile Limited: That is right, senator. Our fixed costs would be at least as high and in most instances higher than our opposite numbers.

Senator Molson: How can we expect to compete effectively if our fixed costs are higher and our wages are higher? How are we going to be able to compete? Are circumstances such that we have become a little out of tune with the worldwide situation? I am not talking about wages in Taiwan and Korea and so on; I am thinking of American and European wages.

Mr. Perowne: Senator Molson, the competitive facts of life are these, and I am talking now for Dominion Textile, for a company which operates some ten million square feet of manufacturing space in Canada, one of the largest in this country in any industry: our situation vis-à-vis the United States is as follows, and it is one of the reasons why Dominion Textile Company took the step to move into the United States just in May of 1975. Here we have the United States with a very large market, a market something in the neighbourhood of 12 times the size of the Canadian market, to start with. Secondly, on the question of wages, the United States textile industry is by and large non-unionized. I am talking now about the primary textile industry, the makers of fibre, the producers of yarn, the weavers of fabric, the bleachers, dyers and printers of that fabric. The primary textile industry in the United States, by and large, is non-unionized. The industry in Canada is very highly unionized. The wages in the United States textile industry—and you can forget about the Koreans of this world, as you were suggesting—the wages in the United States primary textile industry are some 25 to 28 per cent lower on average than the average hourly earnings of textile workers in Dominion Textile Company.

With respect to Dominion Textile's average hourly earnings, our industry is often accused of being just barely above the minimum wage legislation. The fact is that the average hourly earnings of the hourly paid people in our plants, with the latest wage agreements which have gone into effect, are now \$4.65 per hour. In fact, a sweeper in Dominion Textile Company plants is earning more than the average textile worker in the United States.

The United States textile industry is located primarily in the south. On top of that the United States textile industry, through its efforts with government and through the recognition by government in the United States that the textile industry is a most important employer of labour, has been able to negotiate these comprehensive quotas with various countries, quotas which cover from the production of the fibre, starting right back at the petrochemical industry, through to the garment itself. They cover from fibre to yarn, to the woven fabric that comes from that yarn, to the bleached, to the dyed, to the printed fabric, and indeed, to the products and garments that are made from their fabrics.

I constantly, at cocktail parties and other places, hear that most people in Canada believe that the Canadian textile industry is weak, that it is always looking for handouts, and that it cannot stand on its own two feet, so that you may be surprised to hear me assure you that nothing could be further from the truth. The tariff situation in Canada, as it applies to the textile industry in Canada, is no different from the textile tariff structure in

the United States and the EEC, and bear in mind that in the EEC countries you get border taxes, and so on. We do not have a preferred position here, and indeed, as Mr. Armstrong was saying earlier in his remarks, in view of certain duty-free arrangements that have been permitted, negotiated, imposed, over the course of the last number of years, in fact the effective tariff protection for textiles coming into this market is lower than it is in the United States; and we have operations in the United States and we are now able to put this to the test at first hand. That is the first thing I wanted to say on that.

The next thing I wanted to say is that the general image—in the minds of most Canadians, and also in the minds of a lot of so-called influential and supposedly well informed writers—of the textile industry is that the industry, in addition to having a preferred tariff position, has, and indeed is surrounded by, a fence of quotas. In that regard, may I say this to you: Mr. Armstrong was stating that quantitatively about 6 to 6½ per cent of the various types of imports in textiles that come into this country are under quota. The Dominion Textile Company is by far and away the largest producer of textiles in this country, and there are no quotas for the Dominion Textile Company against any country, with regard to any form of cotton, whether it be yarn or fabric, bleached, printed, or whatever it may be. There are no quotas on polyester-cotton that we work with through the Celanese and Duponts of this world. There are no quotas. You can bring in all of the polyester cotton shirting, all of the polyester cotton sheeting, all of the polyester cotton sheets, all of the cotton sheets you wish, whether from Brazil, Taiwan, Singapore, Afghanistan, or whatever country you care to name. There is nothing in the way of quotas.

In the light of this, let me say, as the chief executive officer of Dominion Textiles, that over the course of the past year we have very reluctantly had to close four of our operations, and anyone looking at the statistics of employment at Dominion Textiles will see that with the closing of those four plants we have laid off some 2,300 people. In addition, just recently, in fact within the last few months, we had to announce the closing of our double-knit operation in Montreal. I do not know, and I have never heard anyone from government tell me, where those workers are going to go in the future.

I do not know of any manufacturing industry in this country that basically is not living in almost a fool's paradise, as the developing countries are going through from textiles, to garments, to electronics, to boots and shoes, and so on. We do not stand here in weakness telling you this, we stand here realistically to state to you gentlemen that there is no question but that unless we get help there is no way that little Canada, with its very capable and very industrious textile industry, can compete in this market, especially in the face of recession in Canada—we live in Canada and have to take that—or recession in the United States. We are not asking for quotas against the United States, but let me point out that very surely, when there is a recession in the United States Canada becomes a very, very happy hunting ground for surplus products from the United States.

A third matter I would like to bring to your attention is that if we are to have superimposed upon that all of the Koreans, and the other low-wage countries in this world, we are not smart enough to be able to stand up to it.

In our opinion, in view of the high cost of running our operations at the present time, with the increasing over-

heads that we continually have to face, and with the kind of labour rates I was talking about a few minutes ago, one has to be—and government in Ottawa has to be—very mindful of what I am about to say.

If you are trying to analyze the textile industry, basically all you have to do is look at finishing plants. Dominion Textile has a large bleaching, dyeing and finishing plant in Magog. On that subject, and speaking of labour and capital intensity, to replace our Magog complex would cost \$200 million, so we are not talking about some little shed in back of Main Street lit by a 20-watt bulb. That is not our operation at all.

Again on the subject of capital intensity versus labour intensity, in 1963 it cost the Dominion Textile Company \$13,100 to provide a new job at that particular time. That figure has now risen to \$125,000 per job. We believe—and I would maintain and argue this with anyone—that a company like Dominion Textile, where it costs \$40 million to \$50 million to put up a spinning and weaving plant today, is the best blend of capital intensity and employment provision. Ours is not an operation that consists of two men in white coats, one at each end of a line. We employ people, though we still have a very high degree of automation and technology in our plants.

What I was going to say is the following, and when I have said it I will sit quiet.

Senator Laird: Oh, no, you won't!

Mr. Perowne: The finishing plant is the key to the success of the textile industry. Fixed expenses are greater, and more fixed, in a bleaching, dyeing and finishing plant, than they are in a spinning or weaving plant. Some of the equipment we have stretches for a block and a half. It is something like going into a big pulp and paper plant. If you are going to run that piece of equipment, that stretches a couple of city blocks, you cannot do it for just 40 per cent of the day. After all, you have to turn on the heat, you have to turn on all the steam, and so on and so forth, and you have to man it, as we well know. This is the simple ABCs of economics.

If our finishing plants—and this applies to everybody's finishing plants—with these increasingly high fixed overheads, are going to have to operate in competitive situations which do not afford our industry the opportunity of operating that equipment properly—and we have to operate at 75 per cent or 85 per cent of our capacity—then we are in trouble. If we get down below 75 per cent there is no question about it, you must then watch out for what will happen, because all of the feeder plants—the spinning and weaving plants—are feeding your finishing plants, and if you cannot finish, and your costs are beating you to death, it will surely happen that your spinning and weaving plants will ultimately go by the board, and they will go quite quickly.

We become very apprehensive when we see the volume of garments coming into this Canadian market, because without a strong apparel industry in Canada we do not have customers to supply with the bleached, dyed and printed fabrics that come through all of these finishing plants. We work, and wish to work, arm in arm with the apparel industry. We know our interests are not always completely parallel to theirs, but I say that if the Canadian government allows garments to continue to penetrate this market at the level at which they are doing so at present, we will see not only the demise of the apparel industry but

of the finishing plants and the spinning and weaving plants as well.

My very last statement, if I may go on for a moment, Mr. Chairman, is this. What is our position? Are we seeking quotas by means of which we are going to exclude everybody from shipping into Canada? We are not asking for that at all. We say that the United States, the EEC, Australia, the EFTA countries are fine; we seek no quotas with regard to them whatever. We believe that at the present time, when our industry enjoys roughly 40 or 45 per cent of the total market, restraints on a global basis are no use. As Mr. Armstrong said, it is no use stopping the draperies coming in when the made-up drapes are going to beat your brains in at the same time. But speaking crudely, so that people can understand, we have to stop the kind of nonsense, that is going on. Otherwise capital is going to flow out as it has started flowing from Dominion Textile and other places. We, as a company, intend to remain viable in the textile industry because we have a great investment here in Canada and we are interested in trying to protect that investment. We know about textiles. We will probably hear from other sources, "If they ever did this, then the variety of textiles available from Canadian sources would be this and would be that..." and all that kind of thing. There is no question that our company does not make everything that everybody would wish in the marketplace, but we have samples here, and we could put these samples around this room ten times—and they are samples from just one company—showing the kind of prints that we are offering. If you multiply that insofar as it relates to all the other companies, you will find that there is plenty of production going on in Canada, and if we are given any kind of opportunity, believe me, we will make awful lot more.

Senator Desruisseaux: Mr. Chairman, I am sure our witnesses do not agree with the phasing-out statement made about the textile industry in favour of other industries in Canada. But there is the question for the entire industry of the acceptability of a wide variety of fabrics, and you mentioned something about that. The textile industry is asking for quotas and restraints. Would that not hurt the clothing industry as a whole so far as the consumer is concerned?

Mr. Perowne: If your question, senator, is as to whether it would hit the consumer insofar as the variety offered to the consumer is concerned, the answer is yes. But in the total Canadian industry there is a tremendous amount of variety. I would like to illustrate this point while I am talking about it. In addition there will still be tremendous quantities coming in from the United States. In addition, so far as the low-wage countries are concerned, we are not saying that you should cut them off but we are saying that the erosion of our particular markets should be stopped. There would still be goods coming in from Korea, Japan, Hong Kong and other places.

Senator Desruisseaux: Before you go into that, I would like you to deal with the "phasing out" statement. It was reported in the media that the statement had been made that textiles should be phased out because of the weakness of the industry and to give a chance to underdeveloped nations so that they could send in their textiles here and be helped in that way. How do you feel about that?

Mr. Perowne: Let us take Sherbrooke in the Eastern Townships. We have a plant in Sherbrooke which makes sheets and pillow slips and we have a further yarn plant in

Magog. In that particular area alone we employ the better part of 4,000 people. Then you can multiply this for all the communities around there. I do not know if the rubber industry could take on those 4,000 people, and I do not know if the brewery business could take on those 4,000 people. I do not know what industries can come in and take over that volume of employment.

Senator Laird: Have you discussed that situation frankly with the union?

Mr. Perowne: Yes.

Senator Laird: I ask that question because only yesterday in the Foreign Affairs Committee a question was raised in connection with the general study of Canada-United States trade, as to whether or not we were pricing ourselves out of the market. Now you have made a significant statement about comparing wages in the United States and here, and with a 25 per cent differential you obviously cannot forget pointing this out to your union? Have you had frank discussions with them?

Mr. Perowne: Certainly, I think the history books will show that Dominion Textile Ltd. has had over a number of years some bitter battles with the unions, to the point where I do not think we can afford any more of those bitter battles. The last one was in 1966 and it almost ruined our company. I am not knocking the unions because I think that we have as responsible unions as any other industry in this country. But we have the CSD representing one group, the CIO representing another and the CNTU representing another, and they are all fighting and competing one with the other. The fact of life is that they all want more. But we get a little sick and tired too of all this being downgraded as a low-paying industry. Why shouldn't our people get more money? We do not like it when we are accused of paying just bare subsistence allowances to people. So we have been doing something about it, and we have been building it up. We have an excellent work force, but our problem is to be able to maintain a degree of stability with our work force. It is these ups and downs which create the problem. Every time there is a world recession, not only do we have our own recession here but we have the dumping of goods from the United States and other places. Then we have the dumping from the low-wage countries on top of that.

Senator Connolly: Mr. Perowne, are the union representatives going to come before us?

Mr. Perowne: Yes, they are.

Senator Cook: I am going to ask a question, but if this is not the appropriate time you can ignore it. Speaking of quality and variety you had what I considered to be an excellent exhibition in Trinidad in the first week of January. Do you have any observations to make on what success you have in the export trade?

Mr. Perowne: The Dominion Textile company does about \$25 million worth of export business and this represents fully manufactured goods in Canada. About 80 per cent of Dominion Textile's exports are with Commonwealth countries and the balance is mainly with EEC and EFTA countries.

Senator Connolly: What percentage of the industry's output is exported?

Mr. Perowne: Well, I do not have a figure for the entire industry, but the figure for our own company is about 7 to

8 per cent. We would not build a plant simply to predicate it on export business because it is too volatile and we have seen too many situations in the textile field where suddenly quotas go on or there is an embargo put on. So if you invested your money solely for export, then it would not be viable.

Senator Cook: But you get your export business purely on quality and not on price.

Mr. Perowne: It has to be on quality. With the terrific variety in textiles there is always something that is going to appeal to somebody in some country. So our prices have to be high. There is no question about that. But, by and large, the export business is not as profitable as domestic business. This applies particularly when you are talking about Jamaica, and so on, which is mainly an outlet for over-runs.

Mr. D. Taran, President, Consolidated Textiles Ltd., vice-chairman, Canadian Textiles Institute: A question was brought up about the variety of goods. If you examine the volume of imports from the low-cost countries, you will find that the bulk of these goods do not depend on the variety—the fancy style and the particular shade of blue that everybody is talking about; it is in the basic goods that compete directly with us. By competing directly with us in the basic lines they are forcing our costs up. We do not get the long-run production necessary to keep the costs down and this forces our total cost up, so the consumer does not benefit.

Senator Connolly: I think, Mr. Chairman, that there is a break-out about to occur over in the corner of the room.

Mr. Perowne: This is just a sample of the variety that our company has to offer, and is just something that our company made up. There are no two of those little swatches identical on this particular sheet. We could go through this for the next half hour, believe me, and there would not be two of them alike. There are all kinds of variety; this is the textile business. Incidentally, the more variety that can be achieved, the better it is for the domestic manufacturers, because the Eatons, Sears, Zellers and so on cannot commit themselves in depth offshore if they are not too sure whether lipstick red, fuschia or hot-lip pink will be a big seller during the next month.

Senator Connolly: Could someone say something with respect to what we have seen, and describe how many varieties or sheets were put before us?

Mr. Perowne: I will attempt so to do, because this was made up by Dominion Textile. These are fabrics which are made for the apparel trades. We run probably something in the neighbourhood of 250 different types of fabric, that is different types of weave, number one. In these 250 different types of weaves, broadcloth is a different type of weave from a voile, a voile is different from a batiste, a batiste is different from a duck, a duck is different from a denim and a denim is different from a corduroy, there being 250 of those types. However, in addition, of course, there are a whole multiplicity of types of designs and types of colourings that are put on both plains and prints, frequently trying to co-ordinate the plains with the prints in order to achieve a maximization of the possible end uses for the fabric. In our open lines that are available to all of our customers we will produce something in the neighbourhood of 750 designs twice a year, each design with an average of three to four colour ways. So that is three to

four times the 750, twice a year, for our Spring line. We have approximately half that number for our Fall line and, in addition, we make all kinds of different designs for customers who want exclusivity and do not wish to see their particular pattern in anyone else's garment. Our confined design business is growing all the time, and I would say we do as much confined work as we do open range work, part of which you have just seen.

The Chairman: Do you have something to add, Mr. Côté?

Mr. B. G. Côté, President and Chief Executive Officer, Celanese Canada Ltd.: Mr. Chairman, honourable senators, it is not an easy task to follow Mr. Perowne. However, I represent Celanese Canada, and as much as we are in the textile business, we are also in a number of other businesses, such as the chemical business, the fabric business, the fibres business and the carpet business. So, to a certain extent, Mr. Perowne is a customer of Celanese and Celanese is a customer of Dominion Textile. We are a supplier of Consolidated Textiles and we compete with Consolidated Textiles in terms of fabrics.

However, if I may take a few moments, I would like to go back a little and illustrate the changes which have taken place in the textile industry, where we are at today and the challenges that face us in the years ahead. The Canadian textile industry consists of many industries, some old, some new. The earliest textile industries in Canada were based on cotton, wool, linen and silk fabrics. More recently, these traditional textiles, which we admire and still use, have been giving way progressively to the man-made fibres developed in the last decades. Today approximately two-thirds of the textiles consumed by Canadians are made of man-made fibres and the proportion is expected to increase to three-quarters by 1980. That is not cotton, not silk, not linen, and not wool, but regardless of where they come from, they will move to three-quarters by 1980. In other words, there is a shift from the natural fibres to the man-made fibres, which is the point I am endeavouring to make. This is applicable all over the world, not only in Canada. It is not surprising, then, that an increasing proportion of the textile manufacturing activity in Canada is dedicated to man-made fibres. The change has extended the vertical dimension of the textile industry to include new elements such as man-made fibre producers and chemical producers. The textile industry has thus been moving into a new role, the upgrading of resource materials via chemicals and man-made fibres, to textiles and thence to clothing, carpets, home furnishings and industrial end products.

The transformation of chemicals into consumer products is an exciting business. It is the business of my company; it is the business of DuPont; and it is the business of a large number of other industrial concerns. It is the main business of the textile industry in Canada. The salient factor about this business is that it operates through long, interdependent chains of manufacturing processes. To illustrate one such chain, my company exports a large quantity of fabrics to Europe. These fabrics are woven at our Coaticook plant, from yarn manufactured in our Drummondville plant from petro-chemicals manufactured at our Edmonton plant. The materials we start with in Edmonton, incidentally, are Albertan butane and British Columbian pulp. In this case the processes are carried out within the one single company, but more frequently three or four industries form the basic chain between the resource and the consumer products.

I wish now to make four points which have been introduced earlier. Nevertheless, if I may . . .

Senator Connolly: Could I ask a question here, without interrupting your flow of thought?

Mr. Côté: Yes, senator.

Senator Connolly: You are telling us, in other words, that the source of the man-made fibre is all domestic, all Canadian?

Mr. Côté: It is all Canadian, but I am giving you an instance of one fabric that we sell in Europe, for instance, of which the source is all Canadian butane, from Edmonton, Alberta, the feedstock and the pulp being from British Columbia.

Senator Connolly: Can you inform us as to whether the imports of materials and fabrics that we have been discussing heretofore at this meeting include imports of man-made fabrics as well as natural fabrics?

Mr. Côté: Indeed they do.

Senator Connolly: So that the source of man-made fabrics is not just Canada; it can come from any of the countries that tend to flood our market?

Mr. Côté: Indeed; absolutely, senator.

Senator Connolly: They must have, then, the sophisticated industries in those countries such as Taiwan, Korea, Hong Kong and the Philippines—is that so?

Mr. Côté: Well, whether it is butane—of course, in the case of acetate linings, the woodpulp would come from Korea. It has to start some place, or it might come from Japan and be developed to the stage of a yarn, and in Korea that yarn will be woven and imported from that location into Canada. It does not necessarily follow that all the steps of manufacture must take place in one location.

The first point I would like to make is that textile consumption in Canada is expected to grow strongly in the years ahead, and that provides an opportunity for the entire industry. Textile consumption is growing rapidly in Canada. The growth in our population is compounded with an increase in the consumption of textile products per capita. The demand for man-made textile fibres is increasing still faster than the total of natural fibres that are displayed. As a result of that, total Canadian consumption of man-made fibres in all forms will double within the next 10 years. This represents a great opportunity for our industry.

My second point is that the industry, like its counterparts throughout the developed world, faces many challenges. The industry, as Mr. Perowne has said, pays the highest wages of any textile industry in the world. We do not enjoy, however, the easy advantages of scale because of our limited population.

Imported clothing, fabrics, yarns and fibres erode our markets and the competition comes in many forms, ranging from fair competition from industrialized countries in times of economic stability, to the disposal practices we encounter during recessions, sudden destructive imports from low-cost countries, and imports from state trading economies.

The third point that I should like to make is that new investment is required to serve the growing market and to

surmount import competition by continually introducing new processes and improving the efficiency of existing plants. In our effort to withstand these challenges, Canadian textile organizations continually introduce new processes and improve the efficiency of older plants. In many instances the results are quite impressive. For example, polyester fibre used with cotton in fabrics for shirts, blouses, jackets, and many other items, is selling today at 60 per cent less than were the prices 10 or 20 years ago, despite inflation.

The important point is that a continuing expenditure of capital is required to remain competitive. Additionally, a great deal of new investment will be required if we are to serve the growing market. In this connection, we estimate that more than \$1 billion will be required simply for facilities to produce the additional man-made fibres which Canadians will consume 10 years hence. Large additional amounts will be required, of course, to produce the petrochemical inputs and the textiles made from those fibres. If such new investments are not made in a substantial scale in Canada, I believe our industry will stagnate. However, if they are encouraged, we can expand and improve the successes already achieved.

The Chairman: Mr. Côté, you said that capital expenditure must continue to be made in order to keep you competitive. Competitive with whom?

Mr. Côté: The world market—what is produced on the world market.

The Chairman: What percentage of your business do you export?

Mr. Côté: We export about 20 per cent of our business.

The Chairman: When you were talking about being competitive, I thought you meant competitive with other Canadian producers.

Mr. Côté: I am saying that we have to upgrade our processes. We have to improve the equipment we have in order to have the fabrics, for instance, which are competitive. I am saying that the market is growing at a fast rate, and in order for us to invest new money, we have to have kind of orderliness in the marketplace which justifies the large additional investment.

The Chairman: The domestic market in Canada is growing, but you are not getting the increase in that growing market.

Mr. Côté: I cannot unless I put in new capital.

The Chairman: Even if you put in new capital, your competition there is imports.

Mr. Côté: That is right. For me to have access of this growing market, I have to do two things: I have to remain competitive today, and I have to see that my equipment, processes and manpower are technologically at par with what is going on in the world. In other words, I have to have equipment updated, improved, and so forth. To fully take part in the growing market that is coming from now until 1980, I have to invest new capital; and in the present environment it is very difficult to justify any new plant, as Mr. Perowne has mentioned, unless there is a kind of orderliness in the marketplace. We are not asking that a kind of orderliness be made through stopping other countries from coming into Canada, but in cases which we have experienced in the last two or three years, when there is a

lull or reduction in the economy, we do not want other countries to dump their goods in Canada.

Senator Connolly: You need more than that.

The Chairman: I was concerned about the fact that if you have a growing domestic market, and your share of the market is not increasing...

Mr. Côté: Right now it is not increasing.

The Chairman:—then you are not—perhaps we should not describe imports as being competitive, because they are increasing their volume in the Canadian market. The only effective way we could check that, I take it, would be through quotas.

Senator Beaubien: Mr. Côté, are your prices based on a world market price?

Mr. Côté: When I sell in Europe, I have to be competitive.

Senator Beaubien: What about Canada?

Mr. Côté: In Canada I have to be competitive, because I have other people who sell against me, so my customers are like competitors, in fact.

Senator Connolly: Your raw materials are what—natural gas?

Mr. Côté: In the case of acetate fibre. I have used an example which is the one product line which we export to Europe, for instance, but we are in a number of man-made fibres. We have the acetate fibre, which is the first one we were in in Canada. We have been in Canada for 50 years. We are also in polyester fibre, polypropylene fibre, and triacetate fibre. The triacetate and acetate are the only two that are based on wood pulp and butane. Polyester is a derivative of petroleum.

Senator Connolly: Are you concerned, in view of the shortages that are developing in the world, with a source of supply in Canada?

Mr. Côté: Of raw materials? There are some concerns, yes.

Senator Connolly: I ask you this because I understand that some of the American companies which are in this business actually feel they have to go out and get into the oil and gas business, the exploration, development and all the rest of it. I take it that the situation is not that serious in Canada as yet. Is that so?

Mr. Côté: We are not into oil and gas. I think there were some attempts made back in the late sixties or early seventies, but you need a lot of financial capital to get into that.

Senator Connolly: Oh, indeed.

Mr. Côté: We feel we are best in the areas where we have the technology and the resources, both human and financial.

Senator Connolly: Apparently the trend in the United States, with the critical shortages that are foreseen, is for these companies, in this kind of business, to actively go out and seek sources of supply which they will own, control and develop. Nothing like that has developed here for you?

Mr. Côté: No. We have been able to arrange, for instance, in Alberta for a long-term supply of gas. On that basis we

can justify investment, and so forth. Unless we have those long-term commitments, it would be difficult. We have the same kind of long-term commitment with wood pulp, and so on.

Senator Connolly: There should be lots of wood pulp.

Mr. Côté: The last item is what we have been talking about from the beginning. These investments will be practised in Canada only to the extent that the textile policy is relevant and reliable—in other words, that we can anticipate how it will be implemented—and that we are not subjected to the kinds of experiences we have had in the last two or three years, where the policy was there but not fully implemented by government.

Senator Macnaughton: In other words, more consultation.

Mr. Côté: I think it has to go beyond consultation. I think the government has to believe in what the textile policy was designed to do. If we know what that is and we agree with it, then we can make capital investments, otherwise, there is no capital market that will support any kind of new debentures that we would want to issue.

The Chairman: What you are saying is that government policy should be such that a larger percentage of the domestic market would be reserved for Canadian products.

Mr. Côté: Correct.

The Chairman: That is the trend in the other developed countries?

Mr. Côté: Correct.

Senator Bell: Mr. Chairman, I wonder if Mr. Côté could tell us the percentage of the annual budget which would be directed to research and development.

Mr. Côté: As you are aware, Celanese Canada Ltd. is 56 per cent owned by the Celanese Corporation, which also conducts research into product lines in which we, too, are doing business. In Canada, however, we are in two areas where the American company does not operate, and that is in the carpet area as well as in the fabrics area. For that reason, we have to conduct our own research in both of those areas. In addition, we have to participate in the research in the areas of polyester and acetate, which are common to both countries.

Senator Bell: Do you have free access to the Celanese Corporation research findings?

Mr. Côté: Yes.

Senator Bell: Mr. Chairman, would it be out of order to ask Mr. Armstrong if he has figures for the overall industry expenditure on research and development?

Mr. Armstrong: I do not have that figure with me, senator, but I would be glad to take your question as notice and provide an answer at a later date.

Senator Connolly: Coming back to what I think is the nub of the problem, I take it, Mr. Côté, that one way of assisting the textiles and clothing industry, in your view, is through tariff action, which would mean increasing the rates. Another way is to deal with the problem on the basis of imposing quotas or of controlling import permits under bilateral or perhaps even multilateral agreements. I take it that the second method, namely, to deal with it by way of

quotas and the control of import permits, is acknowledged to be the effective way of dealing with the problem in this day. Do you agree with the earlier evidence that effectively to apply a policy with respect to quotas and import permits there must be some mechanism devised which would involve collaboration between the government, on the one hand, and the industry on the other?

Mr. Côté: Effectively, we thought that this was what the textile policy was all about when it was designed.

Senator Connolly: I agree, but you have to regard the textile policy as a White Paper, a position paper. What you are saying is that the government of the day, in bringing down that policy, said, "This is going to be the way we want to carry out our approach to the problems of this industry." However, that is not in any legislation; it is only a statement of aims.

The Chairman: There appears to have been an intervening policy, Senator Connolly, which is, I think, called "liberalizing international trade."

Senator Connolly: Of course, we are operating in that climate today because of GATT, and, generally, because of the tendency to try to liberalize trade in the interests of both the developing and the developed nations. But let's not go off on that; I want to home in on one point.

What you are saying is that as a result of these general statements of policy, there has been nothing effectively done to coordinate the work of the government, on the one hand, and industry on the other, in respect of the imposition of quotas or the granting of import permits, and that is where the trouble lies so far as the industry is concerned?

Mr. Côté: Precisely, and we thought, when the textile policy was established, that we had the basic framework, the parameters within which we could work, and we were prepared to make the kinds of investments necessary. In fact, we made some investments.

Senator Connolly: This is the instrument under the policy that you now want the government to grasp.

Mr. Côté: Precisely.

The Chairman: No, to return to.

Mr. Côté: To utilize.

Senator Connolly: The government never did it.

Mr. Côté: We want the government to utilize the mechanisms at its disposal to implement the policy.

Senator Connolly: Yes. It is the mechanism that has been lacking. The policy is there, but the mechanism is not in place.

Senator Cook: I am anxious to be fully apprised of what the present situation is. On page 30 of your submission you say:

Moreover, any discussion of tariff protection is incomplete without reference to the numerous measures in force which significantly reduce the nominal rates of duty appearing in the Customs Tariff.

And you go on to say that there are 83 items coming into this country free of duty, to a value of over \$59 million. Can you tell us approximately what the average rate of duty is, or what the high and low rates are—in other words, what protection is presently in force, if any?

Mr. Armstrong: The duty rates in the textile schedule of the Customs Tariff run all the way from 5 per cent at the low to a maximum compound rate of, I would say, 25 per cent and 5 cents a pound or a square yard, or something of this sort. That would be about the top. The rates are roughly comparable to the scale of tariffs in the United States.

Senator Cook: Would you be good enough to prepare a memo for the committee showing the effective rates on the more important items, the larger items?

Mr. Armstrong: I would be delighted to do so, and perhaps I could compare the rates on those items with the rates in force in the United States.

Senator Cook: That would be very helpful.

The Chairman: Senator Buckwold.

Senator Buckwold: Mr. Chairman, I have been sitting back because I am in somewhat of an ambivalent position. I represent a family company which, in a small way, has been a loyal customer of Dominion Textile Ltd. with whom we have been very good friends for over 50 years, as well as with Wabasso Limited, and others. In addition, we are an importer of the very things that we have been discussing. There is just no doubt, from the point of view of the wholesale distributor, that the present situation is a very volatile one, and no doubt has resulted in a deterioration of the whole textile situation insofar as Canadian manufacturing is concerned. I think I speak for most people in the business when I say that we prefer to support Canadian operations and producers insofar as the stable lines are concerned. For those who are involved with exotic lines, there is a place for that, but it is unbelievable what has happened in the overall situation and the amount of imports that a relatively small company such as ours has in lines that should be purchased domestically.

I want to make the point that our industry is an efficient one. Companies such as Dominion Textile Ltd., Wabasso Limited and these various other companies, are very fine companies and they are, I think, fighting a marvellous battle. They have changed their whole production and range to meet the changing needs of the industry. They have been responsive in every way. To a degree, they themselves have driven business away in trying to meet the needs of the domestic market. When they find their production dropping in certain lines, they divert their production into something else, but then find they are unable to fill that need. Very often the whole process is self-defeating and it compounds itself.

Perhaps the major point I want to make is that of quotas. I do not think the quotas have been particularly effective in protecting the industry; in other words, they are not realistic. I do not know of very many items that have not been able to come into Canada, other than that they have been restricted in their final total and subject to a quota.

The Chairman: You said that quotas have not been realistic. Maybe the answer is not that quotas are not the way to deal with it; perhaps the answer is that they did not define the quotas properly.

Senator Buckwold: All I am saying is that they put a quota on shirts, men's socks, gloves, whatever it is; the quotas are high enough, but generally the result has not been any significant problem for importers. In other words, somewhere along the line there are quotas floating that can be found, and the application of the quota system

has not been particularly detrimental to importers, but certainly has been to those who are producing in Canada.

The Chairman: It has been effective in the United States.

Senator Buckwold: Yes. It must be more realistic.

Senator Connolly: This is a very important point, and I think some of the people we have here this morning, and who I hope we will hear from if we sit this afternoon, can make some comment on that very point. It seems to me that this is the focal point around which the question of relief will revolve.

Senator Molson: I think we should know just how these different agreements or quotas have been arrived at. We have heard very generally that agreements are made, and occasionally quotas are imposed, but I believe it would be very interesting to this committee to have on the record how a quota would develop for, say, any single item, just to explain a little more fully what might be expected in that regard.

The Chairman: I understood the witness to tell us that there are very few quotas in Canada. Secondly, they are communicated from the government after they have been settled, so the industry does not participate in them.

Senator Molson: I would like to know what goes into the stage you have just mentioned, Mr. Chairman. If they are arranged by the government, I would like to know what the government does to decide that there will be a million yards, a million pieces or one hundred thousand. How are these different numbers arrived at?

The Chairman: If necessary we can request some of the people who deal with it in the Department of Industry, Trade and Commerce to appear here before us.

Senator Connolly: We have to do this.

Mr. Armstrong: The question raised by Senator Molson is, I would say, directly in the centre of what Mr. Taran was going to say. Perhaps it might be appropriate at this time for Mr. Taran to deal with this subject.

Mr. Taran: Honourable senators, a lot of matters have been raised this morning and I will move away from a prepared opening statement that I had. One of the things we have to clarify in everybody's mind is what the textile policy is, what are the problems within the textile policy, and what are the problems that go beyond the textile policy.

First, the textile policy is based on injury. Our mechanism is only one mechanism. We have to establish proof of injury, which in many cases is after the fact, after the fact that the goods have been bought, after the fact that the goods come in, and sometimes three or four months before it shows up in statistics. That is our mechanism; it is based on injury, on an individual item.

I will give you in detail, chapter and verse, what has happened, which may clarify many of the problems we are having this morning. If my company, which is a very large producer of nylon fabrics for skiwear and leisure wear in general, has a problem, we hear that something is happening, something is being offered into the market from Korea and there is no quota, we have to request a hearing by the Textile and Clothing Board on this item. The Textile and Clothing Board hears us, hears the unions . . .

Senator Molson: When?

Mr. Taran: Within thirty days after the request. The board hears the importers, the Department of Consumer and Corporate Affairs; everybody gets their day in court with the Textile and Clothing Board, who then write a report which is submitted to the government.

Senator Beaubien: How long does that take?

Mr. Taran: I would say, on average, probably 45 to 60 days.

Senator Desruisseaux: When you say it is submitted to the government, you mean to the Department of Industry, Trade and Commerce?

Mr. Taran: That is right. It is given to the Minister of Industry, Trade and Commerce. It then goes through an interdepartmental committee. Then, and only then, after it goes through the total bureaucracy in Ottawa, will it get back to the minister's desk and either be accepted in that form or watered down, changed or whatever the case may be.

Senator Desruisseaux: How long does that take?

Mr. Taran: That can take anywhere from two months, which is probably the fastest, to thirteen months.

Senator Cook: There will be a lot of new material by then.

Mr. Taran: That is basically the point. It is then given to a negotiating committee, which is part of the Department of Industry, Trade and Commerce. If the report says we require a quota with Korea, the negotiating committee will then ask for consultation with the Korean government. If they have just finished negotiations for a year there is a problem; by this time the flood has come in.

The biggest problem that we are talking about is that of communications. I would like to give you an example. As was stated by the Honourable Jean-Luc Pepin, who was the Minister of Industry, Trade and Commerce when this policy was set up, certainly the existence of two solitudes between the three parties would be fatal to the policy. He was talking about government, labour and industry. When that policy was set out in 1970 we had input. We were not happy with the textile policy as it was written. Because of the way the textile policy is written it is very difficult to ask for a bilateral arrangement with any country, be it Korea, Japan or any country, on a global basis, which means fibre fabric garments, because we are an inter-related industry. The only way to do it by the examples given today is to get a global quota, so that at least you know where the market is. It is impossible to plan otherwise. However, we accepted the textile policy, because it was better than nothing; we had nothing before.

At the outset the industry had confidence, and a large investment was made. We had this consultative procedure. Let me give you a very good example of what happened. The board made reports. The first Japanese negotiation was held in Tokyo. We were invited, including myself, Mr. Armstrong and other industry executives, to act as advisers. We were not allowed into the meetings, but we acted as advisers. We stayed in Tokyo for 22 days during this first negotiation with Japan.

Senator Desruisseaux: Was that generally the same with other countries?

Mr. Taran: Definitely. The United States uses this procedure, as do the EEC and Australia. This is a very common practice with all developed countries. They advise their governments at all times.

Senator Desruisseaux: Do they assist at the meetings?

Mr. Taran: In some cases they do. Our government has never allowed us into the meetings. They say that it is against principle. We have not argued that fact. We said we preferred that, but at least we could consult. After every meeting held with the Japanese during those 22 days a meeting was held with us, which could be at six o'clock in the morning, three o'clock in the morning; no matter what the time of the meeting was, we were there and available for the meetings; we had our input. They did not agree with us all the time. A lot of deals were made that we were not happy with, but at least we had a chance to have input. In those early years of the textile policy deals were made on quotas that are not anywhere near as damaging as today. Today we have no input; it is non-existent. Our input stops when we make our presentation to the Textile and Clothing Board. We are consulted by them. We have been asked to a private hearing to discuss private company matters. It is a public hearing in general. We submit a brief and we give information and they write a report. That is where our input stops.

In the fast changing world of commerce today, our input stops January 1. That report does not come out until June or is not acted upon until August. The whole picture has changed. This is really the problem we are talking about, the consultative procedure, and why it is not working. This is something that amazes me. Our Prime Minister and cabinet ministers have constantly gone around this country saying the industry and government have to have proper consultative procedures—we are one, work as one. However, it does not work in our industry, this I can tell you. The way it is operating right now, it is non-existent. Our last input is the Textile and Clothing Board; then we are finished. I will give you some examples in a couple of minutes of what happens in this procedure.

The other point I want to discuss, is the way the textile policy is structured at the present time. There has been a review called for by the government. What we are really asking for, and the only way it can work in this day and age, is to have a global restraint structure. This is not based upon an individual case industry, individual case fabric. For example, we make nylon fabrics. We have a quota with Korea right now. There is no quota on garments. They wham us in on garments. In the global structure, restraint, I would say, is practically impossible under the present textile structure, from an injury point of view; it cannot be done. So, what we are saying is that communication is a problem, a very major problem. However, that is not the answer.

What we need is a total setup, the same way that the Americans have it and the EEC countries and Australia have it, and that is what we need.

Senator Molson: This global arrangement is the one that applies in the United States and its relationship with the other countries?

Mr. Taran: That is correct.

Senator Molson: We should have that on the record.

Mr. Taran: What happens—I will give you an example to make it very clear—is that the Americans go to Japan and

they say, "Our textile market is so many million square yards, of which man-made is so much, wool is so much, and cotton is so much, and we will allow you 500 million square yards." Then, they further break it down, "So much is yarn, so much is fabric and so much is garments."

Senator Desruisseaux: What is the guideline for determining this?

Mr. Taran: They determine it by the size of their market. They say, "Our market is X and we will allow imports to reach 80 per cent." I am actually saying imports reach 20 per cent, and the domestic market is 80 per cent. It is even higher than that now, it is 88 per cent and 12 per cent for imports. Then they divvy up this 12 per cent among all the countries they deal with—"Japan will get 3, this one so much, and that one so much." They divvy it up by product. With the flexibility that importers have right now—I agree with your point—they can switch from one to another.

Senator Connolly: Does the industry in the United States contribute to the input, where those figures are developed?

Mr. Taran: Definitely. I think Mr. Armstrong, who has had relations on a direct basis, can answer that better than I.

Mr. Armstrong: There has never been an association in any place in the world on any subject involving the textile industry that the American industry has not been present at. By that I mean the senior representatives of the American industry, numbering 8 or 10 people. Whether it is in Geneva, Taiwan, Hong Kong or Japan, they are always there; they are always invited.

Senator Connolly: Does that deal not only with quotas but with import permits?

Mr. Taran: In the United States they have a different way of controlling. Our restraints—ourselves, we are nice—are self-imposed restraints by the exporting country. They are not a quota in the true sense of the word "quota." On bilateral agreements, it is a quota. The importing country can then control what comes in.

To give you an example of this, all of a sudden Korea—I will give you a better one in a few minutes—overships and the Americans put an embargo on. They say to Korea, "Gentlemen, according to our figures you have over-shipped. Come and prove to us that we are wrong." That does not happen in Canada. Korea controls the restraints. They do what they want. I will show you facts and figures, which the government is well aware of.

Senator Desruisseaux: Have there been, let's say, questionable liberties taken in that field by other countries, as far as self-imposed restraints are concerned?

Mr. Taran: I would go so far as to say that our government seems to give a bonus for dishonesty. I will show you that.

Senator Laird: Allied to that problem is the problem someone mentioned of trans-shipment through Hong Kong.

Mr. Taran: I am coming back to that.

Senator Connolly: Could I stop you, before you go on? I apologize for slowing you down.

I take it that so far, from what you have told us, at least in part, the American industry is in consultation with American government negotiators on these bilateral and multilateral deals, to restrict imports. However, so far as the Canadian industry is concerned, its only safety valve is the hearing before the Clothing and Textile Board.

Mr. Taran: That is correct.

Senator Connolly: What you say, in effect, is that this is an operation of trying to get the stable door shut after the horse has already been stolen. The damage has been done, the imports are in, the flooding of quotas has occurred and all you are doing is complaining.

Mr. Taran: That is correct. One of the keys in setting quotas, which Senator Molson asked about before, is, "How did they get these huge bases?" The minute you go and complain, because of our procedure of two, three, nine months, they are allowed to come in with these quantities and then they go and say, "Under the ITA, we have performance. Our performance is five million. Therefore, you cannot roll us back from five million." That is how they do it; that is how they reach these numbers.

We are always negotiating from weakness, where the base has already been placed.

Senator Laird: What you want is the American system.

Mr. Taran: That is it. That is what this industry needs to survive.

The Chairman: Mr. Taran, you said you had facts and figures.

Mr. Taran: That is right.

The Chairman: Are they in a form or can you put them in a form?

Mr. Taran: I can. If I just mention them to you, I think you will get the impact. If you want it in writing, I can give you these facts and figures.

The Chairman: It might be helpful.

Mr. Taran: Definitely.

Senator Buckwold: I hope you are going to mention them now. We would like to hear them now.

Senator Desruisseaux: I understand there have been a number of cases where you complain that there was a damaging situation that should be rectified. How many of these damaging situations, claimed by you and repeated by you here, have been admitted as damaging and acted upon?

Mr. Taran: You see, this is where it can be confusing. Say we are involved in three products. Those three products have gone before the clothing board but they are reviewed each year. This is the problem. We have a quota in 1973, and in 1974 they review it again and decide it comes off, so we no longer have it. Then, if we complain again, they may re-impose it. Under the American system, the bilaterals are three to five years. This is the only way you can complain. It is all very well to say you cannot supply the market with the variety. It can take eight months to assemble the bricks and mortar in a plant. It can take 18 months to get delivery of machinery. How can you go and make a commitment for a capital investment if your quota is only for one year? Do you know when they negotiate quotas? Well, this is February 1976, and they will

start with the Japanese—this is the earliest they have ever started—and they are usually finalized in September or October of the year we are talking about.

Senator Desruisseaux: Have you been asked for consultation in connection with the revision of policy on textiles in Canada?

Mr. Taran: Not as yet. It is in too early a stage. We have had one discussion, but they have not put out all the things they want to yet.

There was mention made earlier of jobs. I believe there are too many people in our government, in the position to make the proper decision, who have neither the knowledge nor the inclination to learn what this industry is all about, or how important it is to the Canadian economy.

They have made up their minds that we are dispensable, and there is too much of that around this city. They have not decided on how the 200,000 people directly involved, and maybe another 600,000 indirectly involved with suppliers to this industry, service industries, are going to find work. I read articles in the newspapers which I find amazing: "We are going to recycle workers." I thought they recycled waste. I never heard of recycling people. In any event, these people are immobile; they will not move. If a plant is closed in a small town, the people who are then out of work are not interested in moving to a large city; they simply go on welfare of one form or another. That is a fact. If anyone were to take the number of cases of closure of plants in the textile industry within the last year and were to document them, he would see that the percentage of people who have been re-employed in other industries is minimal.

Senator Desruisseaux: Do you have that in your brief somewhere?

Mr. Taran: I do not believe so.

Senator Desruisseaux: Could that be provided?

Mr. Taran: I think it could.

Senator Desruisseaux: It should be tabled.

Senator Laird: That is powerful stuff.

Mr. Taran: Mr. Armstrong, on the question of recycling of people, could we provide some information on the number of people who, having lost employment in towns where the main employer was the textile plant that closed, are now employed today? Could we provide the senators with any documentary evidence on that?

Mr. Armstrong: We will do that, yes.

Mr. Taran: Mr. Chairman, if you want a specific example, Mr. Hackel, from Associated Textiles Limited in Louiseville, Quebec, recently closed a plant down. Perhaps Mr. Hackel could relate his experience to you.

Mr. N. Hackel, President, Associated Textiles Limited: I am Norman Hackel, President of Associated Textiles of Canada. We are a subsidiary of United Merchants and Manufacturers, which is an American corporation. We have had a textile manufacturing facility in the province of Quebec, in the town of Louiseville, for the better part of half a century. Our company built that plant many years ago from the ground up. We had an enjoyable relationship with labour, as part of the Quebec and Louiseville community, for several decades.

Senator Desruisseaux: What type of textiles were you handling there?

Mr. Hackel: We were manufacturers of woven and knitted fabrics for both the apparel trade and the home decorative trade. We found it necessary, after experiencing severe losses for the past several years, to close down our weaving and textile finishing facilities in Louiseville. We have reoriented the plant out there to a yarn spinning operation. At our maximum employment we had between 900 and 950 people employed in the Louiseville area; we now employ 225. The phasing out of our weaving and finishing processes took place principally from approximately July through to January, and we most recently phased out the last of our looms and our finishing department. We formed a reclassification committee together with the union, provincial people and also federal people, to try to assist those employees we were forced to let go to find other jobs. There has been a sincere effort on the part of the union, on the part of the provincial government and also on the part of the federal government to lend every possible advice and assistance in relocating these people, but it has not met with success.

Certainly, of the 700 employees who are no longer with us in Louiseville, many have found jobs by themselves. It is difficult to keep track of exactly what happens to each and every individual, but as a committee of people, management together with labour and government, we found ourselves to be most ineffective in the so-called recycling of these people. Not only were we ineffective, but it was almost impossible for us to do it. We are also working together with government in trying to find other tenants for the facilities that are not being used in Louiseville, but we have not found tenants yet. We have not been able to convince people to leave the town of Louiseville. They do not like to leave the town where they have spent most of their lives, and in many instances where generations of their families have lived. They will travel from one town to another, but they will not relocate elsewhere.

We have found, with a small community, that the idea of recycling a large number of people into another industry simply does not work, or, shall I say, it has not worked during these past many months. I do not know what experiences other people have had, or what experiences Dominion Textile Company has had, for example, although Mr. Perowne mentioned that some 2,300 of their employees are no longer with them. So on the system of recycling, I can say that it is not effective at all.

We have a yarn spinning operation in Louiseville which will require additional investments to keep us modern and competitive. We are operating that business together with another important company in the textile business, Yarn-tex Holdings Corporation. Mr. Deckelbaum is here representing them today. We now find that garments are coming in made of the yarns that we are spinning in Louiseville, where we still employ 225 people, and it remains to be seen what kind of impact these manufactured garments will have in the months or years ahead on the spinning facility, which with considerable effort, we have reorganized and rebuilt, and which we should like to think will be a continuing viable part of the Louiseville community.

I thought I would mention this to honourable senators today because it is something which has happened in the recent past—one might say, the present. It is not something which is historical, in the sense that it took place a few years ago. It is something which is symptomatic of the problem. Our decision to phase out the weaving and spin-

ning operation in Louiseville was purely and simply that we could no longer make fabrics, knitted fabrics or woven fabrics, of the styles that comprised our share of the market, and still compete with the low-priced imports. It was simply impossible for us to continue to do it. That is about it, Mr. Chairman.

Senator Macnaughton: Your shutdown was not caused by union trouble?

Mr. Hackel: No, sir, it was not. We had negotiated union contract many months before the decision to phase out our operation. Our negotiations with the union proceeded on a fine and business-like basis. We did not have a strike. It was the first time our plant was organized, but the decision to phase it out certainly had nothing to do with the union. Our relationship with the union was and still is good.

Senator Desruisseaux: Was there a complaint made to the department about the damaging effect of the imports?

Mr. Hackel: Yes, Associated Textiles Limited has participated in the last six years...

Senator Desruisseaux: Before you phased out, though?

Mr. Hackel: No. We did not make an individual complaint at the time, because the problem related to that with which the Canadian Textile Institute had been dealing with the government for many years. In Louiseville, where we had our facility, we had sections of that plant that were in knits and woven synthetic fabrics, and we were the largest producer of glass fabrics in Canada. Customarily our company produced glass at a rate of four or five million yards a year. However, that was simply one part of the whole complex, and it was necessary that the entire complex be viable and not just one part of it.

Senator Desruisseaux: And your reason for phasing out was exactly what you are complaining about here?

Mr. Hackel: Exactly.

Senator Desruisseaux: And the textile policy, as such?

Mr. Hackel: Well, you may want to relate it to textile policy, but I would rather relate it to the living facts of life of imported fabric and imported garments, and the combination of the two.

The Chairman: Mr. Hackel, I take it the government—that is, in Ottawa—could not help but be aware of the problem that you have, and of the termination of employment of so many people.

Mr. Hackel: Yes, they were aware of it.

The Chairman: Because you were dealing with some other department of government in an effort to relocate employees, is that not right?

Mr. Hackel: We did not consult with Ottawa on our decision to phase out the weaving and finishing operation. When we decided to do this it was done purely on the basis of business viability; we could not continue with it any longer. Certainly the government knew that the operation in Louiseville of Associated Textiles of Canada had lost substantial quantities of money over the past several years. In submissions, and inquiries we participated in over the years, we certainly made it apparent that our company was having difficulty, but, no, we did not consult with Ottawa as a matter of soliciting help or co-operation to avoid this closure, because we were in the position of

having determined that there was nothing the government could do of an immediate nature, for a particular company like ours, that would alter our decision.

The Chairman: Except that they were going to have an increased drain on the Unemployment Insurance Fund.

Mr. Hackel: That is true.

The Chairman: And they would be concerned about that.

Mr. Hackel: Well, I certainly realize that the government would be concerned when they found out what our decision was. They were very much concerned, and they certainly did come to visit with us to find out everything that had happened, and also to determine whether there was anything they could do. They described to us those things they might do if the decision could be altered, but this was something, Mr. Chairman, that involved many millions of dollars.

The Canadian division of Associated Textiles, as was reported publicly, had costs of \$10.2 million on its last fiscal year. Possibly \$5 million of that related to the costs of phasing out the weaving and spinning operations at Louiseville. We had lost money to the tune of millions of dollars over the previous several years. Sometimes it was considered by certain people in our own company that perhaps management overstated the problem at Louiseville, after having been there for half a century, and having participated in the life of the town, and having been part of an international textile community, but I do not believe our company has ever vacated any part of the world before where they have had a manufacturing facility. If I am correct, this is possibly, or probably, the first instance of this type in our company. We have been in business in South America, for example, for generations. The company has been very proud of the fact that, wherever they have made an investment and where they have come to be part of the community they are operating in, they stay for decades. We were, however, not able to stay in Louiseville, and we relate that to the problem of imports.

Senator Macnaughton: Could I ask a question? I do not want to probe into your private affairs, but was your decision to close due to changing competitive conditions in the industry, or would you allocate total blame to the imports that you had to compete with?

Mr. Hackel: No. We felt we could compete very satisfactorily with Canadian producers. We were not able to compete in the international marketplace. The line of fabrics we produced was very much related to what could either come in from the Far East, or from underdeveloped nations and/or what the United States was dumping in here during a recessive period. For a small company—and Associated Textiles of Canada was not a very large producer of fabrics—we were heavily concentrated in knitted products, for one thing, and we were also concentrated in basic types of textile products that were relatively easy for underdeveloped countries to make. I would say that was the principal reason. Some of the things we produced were unique to our business. We enjoyed a commanding share of the glass marketplace here, but unfortunately that was one small segment of our business and we were not able to defend it.

Senator Macnaughton: And these facts were brought to the full attention of Ottawa?

Mr. Hackel: During the course of several years, yes. Not only was this done in hearings, but through the association we have enjoyed with fellows from the Department of Industry, Trade and Commerce, who would visit with us. I would say the men in the department were very solicitous of information and knowledge as to what was happening. Their presence was certainly felt. Their interest was definitely there. The men who performed the service here for the government developed a very fine rapport with the various executives in our Canadian textile business, so that we confided in them how serious our problem was, straight across the desk. I think this one-man-to-one-man relationship serves a very useful purpose. It would take place in that way, or even on the telephone, many times. Some of these men are present here in this room, and would attest to the fact that the discussions were very free and open at all times. That is about the best way I can answer that question.

The Chairman: Thank you, Mr. Hackel.

Mr. Taran: I said I had some examples of the kinds of lack of communication, negative attitudes and short-term thinking that result in disaster. Korea had a quota established in 1970-1971 at a level, in nylon fabrics, of approximately 250,000 square yards. This was established on the basis of the nylon quota with Japan. They gave Korea a certain amount of that particular line when Korea started to come into the marketplace. This quota was increased on a yearly basis at 6 per cent, and it was up to about 300,000 yards in the 1973 period.

In October, 1973 the board called for a review. This was, I think, the second or third review on nylon fabrics on a yearly basis. We went and presented our brief to the board, and we went and talked to them privately. We advised them in our brief that Korea was deliberately not shipping that 300,000 yards, so as to entice the Canadian government to lift the quota, and the quota once having been lifted, they would then hit us. This is written right in our brief. The board, in their wisdom, which we did not agree with, lifted the quota from Korea and Japan on February 5, 1974. We were not told of this, remember. Once we have our input finished, that is the end; we are not told. The matter then goes from the board to the minister and the inter-departmental committees.

Senator Desruisseaux: What reason was given, then?

Mr. Taran: Remember that 1973 was the year when the entire world went into complete turmoil with regard to oil products and everything else. The Japanese raised their prices, and everybody felt at that particular moment in time that they no longer needed quotas. They felt that the industry could take up the shipments from Korea and Japan without any quotas at all, but with only the normal tariff. We disagreed. We told them at that particular time that it was all well and good for everybody to be short, but that these shortages were not real. We told them that what would happen was what in fact happened. All of a sudden the Koreans came in and started offering huge quantities of nylon. We immediately called Ottawa and said, "We want a meeting because we feel we are heading for a disaster situation." We had a meeting with the textiles branch of the Department of Industry, Trade and Commerce and with OCIP, which is responsible for negotiating quotas. We advised the gentlemen at this meeting that the Koreans had already booked two million yards of goods, firm; that we could track this down in the trade. You have to appreciate that our customers were not volunteering

this information so quickly. We were told at this meeting that it was impossible because the Koreans had told our negotiators that they were not interested in nylon fabrics. But they said, "If it is true, we have no problem," because at that time we found out that the quota had been dropped—at least, we did not find that the quota had been dropped, but they said that they had an agreement with Korea. In this regard I would like to read you this minute because it becomes very important in what happened in our negotiations. This is an agreed minute signed on August 26, 1974. The agreement had been finalized two months previously, but the minute had only been signed on that date. It says:

Regarding sheets (all fibres), pillowcases (all fibres), cotton broad-woven fabrics and broad-woven fabrics substantially of nylon,

They lifted all four quotas at that time.

i) restraints on these products should be dropped until such time as the findings of the Textile and Clothing Board inquiries taking place this year are known but, if these findings are that safeguard measures are necessary, . . .

Now I want to say that the negotiators knew they negotiated this that the board had requested that they be dropped.

a) Korea will initiate restraint action immediately, if requested by Canada, at the annual quantitative levels established for 1973;

b) Korea and Canada will enter negotiations as soon as possible regarding what changes may be warranted in the foregoing restraint levels;

(ii) meantime, the Government of Korea will provide export statistics for these products, when requested by the Canadian Government and should the rate of exportation reach disruptive proportions, consultation will take place immediately to correct the situation.

We were given this paper at that time, and they said, "You have nothing to worry about, if what you are saying is true." I said, "But we are not going to wait. You always make us wait for the statistics of Statistics Canada to show up nine months later." We said, "We will give you names of ten people—because you have a very large bureaucratic system here in Ottawa—and if you call the ten people in the trade, they will, I am sure, answer you honestly as to whether they have booked goods or not." Within ten days we got a report back that telephone calls were made, and besides the names we gave they also called other people, and the figure was not two million square yards, it was five. Now this was a five-week period and where their quota in 1973 was 330,000 square yards they booked five million square yards in five weeks. There is a very good reason for that. Our price on the fabric at that time was 70 cents, while it was landing from Korea at 48 cents. The 48 cents did not cover our raw material cost.

Senator Cook: Was that including tariffs?

Mr. Taran: Including tariffs. We immediately went back to Ottawa.

Senator Connolly: And that was not dumping either.

Mr. Taran: Well, you see, dumping is very difficult to prove for another reason. Our dumping laws state that if the product is sold in the country of shipment at the same

price as it is shipped to Canada, then it is not dumping. And so far as Korea is concerned, it is only recently that something has been done in this area by way of added value. But that is not significant because the government only gets the duty on the higher value, which is very minor, and not on the total cost of the product. We went back to Ottawa and said, "Okay, you gave us this minute and you told us there was no problem, so what are you going to do about it?" We told them that now they knew it was five million. And that is when the stalling started.

The Courtauld textile policy, if you read the first part, says there has to be a finding by the Textile Clothing Board based on injury, and that finding was only officially submitted to the House of Commons on November 28, a year and one month later. But there is no injury, so, according to our textile policy, there is nothing we can do. We had to call an intermediate hearing, which the minister called on November 28. The board, because of the emergency and because I personally came to Ottawa and visited seven politicians—from wherever we had a plant—and put on tremendous pressure . . .

Senator Macnaughton: You might tell me how you do that sometime!

Mr. Taran: Then and only then did they call a hearing, an emergency hearing, which is very rare. The board came out with a report on December 17, which was three or four weeks later, because the board in the meantime had been accumulating its own evidence as to what was happening, and recommended that an immediate imposition on goods from Korea be stopped until December 31. They then set a figure of 400,000 yards for the first three months of 1975 and would review in the normal period of time, which was in March, what they would do for the balance of the year. I find this ludicrous. In the first place, it gave an 18 per cent increase over 339,000. The 18 per cent of 339,000 is not a tremendous amount, but it is a question of principle. Here is a country that does not honour its obligations in any way shape or form, having signed an agreement with us, and then you give them an increase of 18 per cent. They allowed all the goods to come in that were shipped and arrived in Canada prior to January 21, which amounted to 1.1 million square yards. So it does not pay to be honest in Canada.

Senator Connolly: You have an appeal from that?

Mr. Taran: No, there is no appeal.

Senator Macnaughton: Could you have supplied the goods at the same time? Was there a shortage?

Mr. Taran: I will tell you what happened as a result of this. No other developed country, the United States, the EEC members or Australia—and this has been proven because Korea has acted in this manner and has never honoured an international obligation in trade—would ever allow this. They would just put on an embargo and, bang, it would be stopped, and the embargo would remain until the mess was straightened out; but we have to go through this procedure.

Senator Connolly: And that is one of the remedies you think that we should have here?

Senator Desruisseaux: Is it not possible now to put on an embargo according to our rules?

Mr. Taran: According to the Textile Board you have to prove injury.

Senator Desruisseaux: So they should put on an embargo first and then examine the injury done?

Mr. Taran: That is right.

The Chairman: Rather like getting an interim injunction.

Mr. Taran: The market took six months to recover from this onslaught. I will give you one figure; the five million yards booked and the one and a half million yards they shipped happened to be in nylon lining. That is what they started with, before we spotted what was happening in the marketplace. The total market for nylon lining at that time in Canada was 6 million yards, so, in other words, they booked practically 100 per cent of the nylon lining market in five weeks. The disruption they caused in the trade, along with the other offers they made—they started to spread out into everything else—resulted in our having to close all our weaving plants for three weeks. Just imagine the situation when everybody can buy goods 40 per cent cheaper. So they are not going to buy from us. The result was that our inventories went like that; our business stopped.

Senator Connolly: Is this done through a Canadian sales force?

Mr. Taran: Well, what the Koreans do is a little different. The Japanese have a trading company set up throughout the world. Every Japanese trading firm is represented in Canada and they have a sales force in every major market in Canada. The Koreans use these Japanese trading companies or they trade on their own. There is no love lost between the Koreans and the Japanese, so it works both ways.

Senator Macnaughton: When you speak of Korea, is it North, South, or both?

Mr. Taran: South Korea. We had no overtime in our mills from that period on, when we normally would have. We worked five and a half days; the workers want this overtime during the winter months, from November through June, and do not wish to work overtime during the summer, which you can appreciate. However, all overtime was lost. We decided to close our Joliette plant, which employed 110 people. Since that time we have restructured the plant; we changed the product in that particular plant and restructured it so that we will keep it open but only employ 34.

Senator Cook: How many were employed before?

Mr. Taran: One hundred and ten in that particular plant. We employ, by the way, 1,300 people, our particular company. Here is an example of what I am attempting to illustrate as to what takes place during this consultative period under the structure as it now exists.

Senator Desruisseaux: May I ask, as a point of clarification: You said you made representations. Was this to the board first?

Mr. Taran: Yes.

Senator Desruisseaux: And the board did not wish to act on it?

Mr. Taran: No; we made representations originally to the board. We went through the whole process and they said, "Lift the quota." Are you referring to the second time?

Senator Desruisseaux: Yes.

Mr. Taran: The second time we went back and asked the government, because they had a piece of paper to sign, and they told us there would be no problem. Then, when we saw that we were getting nowhere with that piece of paper, or that avenue, we went to the board. However, then starts the procedure of time.

Senator Desruisseaux: That is where you mentioned that you saw five politicians?

Mr. Taran: No; under the ITA they could have acted. That is the international agreement which Canada has signed and under which they could have acted. There is a clause in the ITA which states that what Korea did in this instance was not right. There is a consultative period of 60 days and seven days and it can be unilaterally imposed if they refuse to negotiate. At this particular point, and I may have skipped it, Korea refused to negotiate with Canada. They refused to supply Canada with export statistics, which was part of this agreement. Koreans could be found nowhere; they just disappeared because they were only interested in shipping in as much as they could before they could be stopped.

Senator Macnaughton: They were taking orders!

Mr. Taran: That's right. This is an example of how the procedure works. I will give you one example with respect to polyester from Korea. Again I am using Korea. This is very interesting. We have a quota with Korea—and I will go back to 1972—of 1,135,000 square yards. This industry of polyester film and fabrics has been complaining since 1968 that we feel that it is one of the biggest growth markets in the textile business. At this particular point in time I believe that our market share is 24 per cent; in 1970 it was 23 per cent. Because of the quotas established with Japan of 19 million yards, Korea with its quota, plus everything else, we just have not been able to get our share out, and I will tell you why. On the 1,335,000 yards, Korea shipped in 1972—2,134,000 square yards, or 60 per cent overshipment. What did our government do? They said, "You are bad boys. Don't do it again!" so they gave them a 4.9 increase for 1973. In 1973 Korea shipped 1,975,000 yards, or 41 per cent overshipment. The same story again, "you are bad boys!" At this point, in 1973, the board became involved, and I will read what the board said in this regard. In its report of May 1, 1974 the board specified that exports from South Korea to Canada during 1974 limited to 1,485,000 square yards, less an appropriate adjustment for overshipments during 1973, be accepted. This board report was accepted by the Minister of Industry, Trade and Commerce in its entirety; this is what was negotiated. In 1974 South Korea was given 1,490,000 square yards, but the board said, "No compensation for overshipment." They gave them a 6.35 per cent increase. What did Korea do? In 1974 they shipped two million yards, a 40 per cent overshipment again. Come 1975, the board again, in its report, says:

The board suggests also that more vigorous action should be taken under article 8 of the GATT arrangements to prevent circumvention of this agreement reached under it.

The board again did its job. What did we negotiate? A 6 per cent increase for 1975. We give bonuses for dishonesty in this country.

Senator Connolly: You are talking about percentage increases. Is that also a dollar increase?

Mr. Taran: No, this is square yards. Quotas are usually negotiated in pounds or square yards. A dollar increase is at a much higher level. I am coming to that.

Senator Connolly: I am having difficulty in framing my question, because you say that the Canadian producer can supply 23 per cent. The market is increasing and supplies 24 per cent. I take it that the dollar value, if the market is bigger, is very much greater.

Mr. Taran: When I talk about the market increasing, I am not talking dollar values but square yards, because everything we do in this business is based on square yards in all of our discussions with government. What I am bringing out is why we have not increased our market. It is because in 1970 it was Japan, in 1972 it was Korea, in 1974 it was Hong Kong. As Japan keeps opening up her satellite plants in different countries around Southeast Asia, they get another share of the pot. We do not get a chance for the growth. We are then put in a position where we are in direct confrontation with our customers.

Senator Connolly: Are there Japanese operators in Korea?

Mr. Taran: Japanese investment and technology is what started all the textile business in Korea.

Senator Connolly: Let me ask a general question: Is there a tendency on the part of the authorities here in Canada to take a very lenient view of shipments from underdeveloped countries, to give them a chance to develop their own economy? How much of that kind of thinking goes into the creation of these problems?

Mr. Taran: I would say a great deal of it, because I would say that if you are in the business world and you talk to people in Southeast Asia, they think that the Canadian government are the biggest bunch of Boy Scouts that God ever created when it comes to negotiated loans.

Senator Cook: Mr. Wheland would not let in eggs, though.

Senator Desruisseaux: Has Korea self-restrained its exports?

Mr. Taran: Yes.

Senator Desruisseaux: Have we left that to them, despite the breaches?

Mr. Taran: Yes. Only in March of this year did the Import-Export Control Act come in, where the Canadian government gives licences. But for three years, with constant complaint from the industry, and constant board reports and recommendations, nothing was done about it. Let us go to trans-shipments. You brought something else out. In the same year, 1972, Korea was not satisfied with overshipping. They figured they would have to find another avenue, and they started trans-shipping through Hong Kong. In 1972, 666,000 square yards; in 1973, 1,200,000; in 1974, 554,000. If you add these figures to those figures, they are over 100 per cent overshipments. Under the GATT arrangement—and this is in the field where we are not exercising the tools we have available—your overshipments can amount to up to 5 per cent, and that has to be compensated in the next year.

Senator Connolly: That is a very important point, because the GATT arrangement is one that I think gener-

ally we are expected to, and probably do, observe very meticulously.

Mr. Taran: We do.

Senator Connolly: And we don't.

Mr. Taran: We observe it when it comes to what we think we can or cannot do. It is the other parties that do not observe the same amount of discipline.

Senator Connolly: Are you saying that with these Korean shipments in mind?

Mr. Taran: In general, with respect to everything. The GATT has certain rules of what you can and cannot do. By the way, the magic figure of 6 per cent that I have been using is the maximum that is allowed under the GATT. We always give the maximum. It could be zero. It does not have to be 6 per cent. If you have a situation where you have a small part of the market, you do not have to give 6 per cent.

Senator Macnaughton: Do you have any more examples to give us?

Mr. Taran: Yes, I have one quick example. We had a situation at the same time with Hong Kong. Hong Kong was to be used as a trans-shipment point for the same type of product. This, by the way, is very interesting. The Canadian government was fully aware of what was going on. What would happen is that an importer would go to Korea to buy one million yards of goods. The Korean manufacturing says to him, "Fine, but I have a quota. What I will do is sell you 500,000 yards direct shipment to Canada and 500,000 yards will be shipped to Hong Kong, where we will switch boats and then ship it on to Canada."

Senator Connolly: Thereby getting it in under some other quota?

Mr. Taran: There is no quota with respect to shipments coming in from Hong Kong.

Senator Connolly: Why wouldn't they ship the whole thing through Hong Kong?

Mr. Taran: They have to show performance. They have controls in their country. Korea controls performance by allowing companies to export on the performance of the previous year.

Canadian government officials have admitted to me personally that they have seen these letters of credit in Korea which state that half of the shipment will be shipped direct and half through Hong Kong. They know what is going on. This is not something that the Canadian government does not know about. The Japanese are not the great offenders of trans-shipments.

Senator Connolly: But the Japanese are behind the Korean operations.

Mr. Taran: They make the investments; they do not run the Korean operations. The Japanese, as a whole, honour their agreements; they are too high but they are honoured.

Getting back to the situation with Hong Kong, the Japanese then decided they would get into this act also, but they did so in a more legitimate way. They had a polyester agreement with us for 18 million yards. That quota was being filled without any problem, but they were selling it all within the first four or five months of the year, com-

pletely disrupting the market from the point of view of price. Our customers, not being able to get deliveries later, would come to us to find out why we could not supply them. But how could we go ahead and produce a product when the market is flooded in a four-month period? This is another drawback of that large a quota.

The Japanese decided that they would get into the act, but they did it more legitimately. They constructed two or three finishing plants in Hong Kong and shipped Japanese raw fabric into Hong Kong, dyed it in Hong Kong, and then shipped it from Hong Kong to Canada.

We advised the Special Import Policy Committee of the Department of Industry, Trade and Commerce of what was happening, because by dyeing the goods in Hong Kong, the country of origin, under our customs laws, was legitimately changed. There being no quota out of Hong Kong, they could build up a big base before we could go to the Textile and Clothing Board to obtain a quota.

We finally got the Textile and Clothing Board, in March, 1975 to establish a quota. The Textile and Clothing Board, by the way, in 1974 talked about trans-shipments. It said:

As to imports from Hong Kong, the board is satisfied they do not originate in Hong Kong and recommends that appropriate action be taken promptly to prevent circumvention of restraint arrangements through the re-export to Canada from Hong Kong of polyester filaments and fabrics originating elsewhere.

Senator Desruisseaux: How was that handled?

Mr. Taran: This report came out May 1, 1974. The import licensing act to control this did not go into effect until March, 1975, a year later.

Senator Connolly: All this goes to prove the point made some time back, that the protection, the safety valve that is in existence, is the Clothing and Textile Board, which cannot begin to function until after injury has been done and the damage has then been done; the situation is irrevocable; you have got the flooding, you have got the disruption of the market and there is no way of dealing with it then; it is all over.

Mr. Taran: To a great extent that is true; not 100 per cent, but to a great extent it is true.

Senator Connolly: Isn't the story that all the board can do is look after a few disruptions of the same kind?

Mr. Taran: That is correct.

Senator Connolly: It is the old story of, "These Chinese are damned clever"; they will find some way, and that is what you are complaining about.

Mr. Taran: That is correct. You see, there is no control. We cannot put enough fingers in the dyke. It is impossible. The market is changing so quickly; fashion demands are made, what our consumers want is changing so quickly that you cannot put all your fingers in the dyke. In this day and age of communication they will fly garments in; people go over to the Far East, place an order and the garments are flown into Canada. It is too quick. Maybe twenty years ago this could be done, but it cannot be done today and the only control is total restraint.

Senator Desruisseaux: There is the question of anti-dumping, which has not been touched on very much here. Have you cases of anti-dumping?

Mr. Taran: Yes. There are two problems with the anti-dumping procedure in Canada.

Senator Connolly: But again it is after the horse has been stolen.

Mr. Taran: It is way after the fact. The anti-dumping procedure in Canada takes over a year.

Senator Connolly: What you are saying is that the device of the Textile and Clothing Board is not an appropriate device for achieving the purpose for which this business of import controls was designed.

The Chairman: You mean, it is not an appropriate body having regard to its present powers.

Mr. Taran: Its power is the problem. I think it is an appropriate board; it is the question of power.

Senator Connolly: Its method of operation.

Senator Desruisseaux: How do our methods compare with respect to anti-dumping?

Mr. Taran: Let me give you an example. You have asked about exports. Our company exports about 12 to 15 per cent of our products.

Senator Connolly: Where is that to? Is that to the United States?

Mr. Taran: No, very little to the United States, although there is some. I can give you some examples of the Americans versus our own situation.

The Chairman: Are we terminating now, or getting near to it?

Senator Connolly: Let him finish just what he is on, Mr. Chairman. I think it is only a short point.

Mr. Taran: With anti-dumping in Canada you have to prove injury; the customs branch of National Revenue has to make an investigation; it has to go before the Anti-Dumping Tribunal. The time of the procedure before the finding comes out usually runs to about a year, so it really is not a method of controlling something as volatile as textiles.

The Chairman: Especially if the so-called offending country can control its trade market value.

Mr. Taran: That is the point I am coming to. Under our anti-dumping code, if the product sold in the country of export is the same as that exported to Canada under normal terms of trade it is not considered dumping. So, sales below cost—this was brought out and it is very important—vis-à-vis the United States or the EEC, when you get recessions in other countries, we are the first to feel it. We are the dumping or the surge tank for everyone.

Now, just to put it on the other side—I will try to answer this as quickly as I can because I know everyone wants to leave—in the United States, if you ship something in, they have a form that is that long. They want to know everything. They want to know if there is any drawback. They want to know if the companies are related. They have every possible question on that form.

We had an experience with an American operation. We shipped goods into the United States five years ago in this textured polyester field. We had the technology and we developed it. We were the only ones in North America

producing this market where Canadians only control 22 per cent. We were successful in exporting two million yards to the United States before they got this technology. We cannot even control our own market in Canada because we get it from the Far East. This is really how wild it is.

When we were shipping goods to the United States, the Americans wanted to know immediately—this took exactly one week—when the shipment hit the border, all this information. We got a form from the American customs and they said, "Answer all these questions and you have seven days to answer them." If you do not answer them, there is a 50 per cent slam on top of you.

Senator Connolly: On the previous shipment.

Senator Cook: May I ask just one question, Mr. Chairman?

In your brief you finish up speaking about the mandate of the Textile and Clothing Board. What you are saying is a little bit akin to motherhood. I believe what you really want is that the orders of the Textile and Clothing Board should become effective at the time they are made, subject to appeal afterwards?

Mr. Taran: Yes.

Senator Cook: What you are saying there is very nice but not worth a damn thing.

Senator Connolly: I don't believe it is enough just to have these few remarks on the record.

The Chairman: We are getting near the adjournment time and we do have another hearing scheduled for next week on this same subject. The DuPont people will be here then. They were not able to be here today, so you can pursue it then.

Senator Connolly: Will some of these other gentlemen who have been here today be available next week?

The Chairman: If they are, it will only be if they have something to contribute.

Senator Connolly: Having heard what went on this morning.

The Chairman: That is right.

Senator Connolly: There is one further thing I would like to say, Mr. Chairman. I do not know whether this is a further onus upon you, but having heard what we have heard this morning, the committee should take steps to alert the people in the appropriate government departments.

The Chairman: That is already under way.

Senator Connolly: I see. We want answers. We hear one side of the question, and we have a very impressive case made. There may be a great many things that some of the departmental officials would have to say in respect to some of the problems that we face here.

The Chairman: They will be invited for next week, but whether or not they come is something else.

Senator Connolly: Perhaps there will be evidence next week from this side which will make it desirable to hear them later. I hope that when they come the representatives of the groups who are here today will be available to deal with the evidence given by the officials.

The Chairman: We do not discipline them.

Senator Connolly: An opportunity will be available to them.

Senator Macnaughton: They will probably have a heart attack if they do come.

Mr. Armstrong: I can assure you, Mr. Chairman, we will be present.

The Chairman: We will adjourn. We have a sitting scheduled for next Wednesday and also one for the following Wednesday. This meeting is adjourned.

The committee adjourned.



FIRST SESSION—THIRTIETH PARLIAMENT
1974-75-76

THE SENATE OF CANADA

PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON

BANKING, TRADE AND COMMERCE

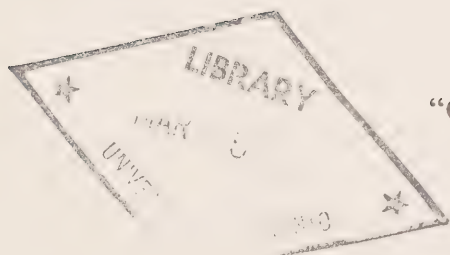
The Honourable SALTER A. HAYDEN, *Chairman*

Issue No. 76

WEDNESDAY, FEBRUARY 18, 1976

Second Proceedings on:
"Canadian Textile Problems"

(Witnesses: See Minutes of Proceedings)



THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Barrow	Hays
Beaubien	Laird
Buckwold	Lang
Connolly	Macnaughton
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
Everett	Smith
*Flynn	(Colchester)
Haig	Sullivan
Hayden	Walker—(18)

**Ex officio* members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, May 27, 1975:

"Pursuant to the Order of the Day, the Senate resumed the debate on the inquiry of the Honourable Senator Desruisseaux calling the attention of the Senate to Canadian textile problems.

After debate,

The Honourable Senator Asselin, P.C., moved seconded by the Honourable Senator Choquette, that the subject-matter of the inquiry be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, February 18, 1976
(98)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m.

SUBJECT: "*Canadian Textile Problems*"

Present: The Honourable Senators Hayden (*Chairman*), Barrow, Beaubien, Connolly (*Ottawa West*), Cook, Desruisseaux, Flynn, Haig, Hays, Laird, Lang, Macnaughton and Walker. (13)

The Committee then proceeded to the examination of the above subject during which the following witnesses appeared:

WITNESSES:

Ms Caroline Pestieau; Associate Economist, Canadian economic policy committee;

Mr. J. E. Newall, Executive Vice-President, DuPont of Canada Ltd.;

Mr. G. R. Wittman; Director, Febres Group, DuPont of Canada Ltd.;

Mr. F. S. Kenny, Director, Government Relations, DuPont of Canada Ltd.;

Mr. G. L. Bruck, Chairman, Bruck Mills Limited;

Mr. T. Yamaguchi, President and Chief Operating Officer, Bruck Mills Limited;

Mr. J. I. Armstrong, President, Canadian Textiles Institute;

Mr. A. J. Fyfe, Vice-President and General Manager, Wabasso Ltd.; and

Mr. E. W. Young, Executive Assistant to the General Manager, Wabasso Ltd.

The following witnesses were also present:

Mr. T. R. Bell, President and Chief Operating Officer, Dominion Textile Ltd.;

Mr. P. E. Bieler, Chairman and Chief Executive Officer, Zephyr Textiles Ltd.;

Mr. F. P. Brady, Vice-President, General Counsel, Dominion Textile Ltd.;

Mr. R. A. Chevrier, Vice-President and General Manager, Febres Division, Celanese Canada Limited;

Mr. J. G. Dionne, President, Dionne Spinning Inc.;

Mr. J. H. F. Kenny, President, Hanson-Mohawk Ltd. and Rennie Industries Ltd.;

Mr. G. P. MacPherson, Director, Government Relations, Celanese Canada Ltd.;

Mr. E. M. Paul, President, Leach Textiles Ltd. and Vice-President, Cleyn & Tinker Limited;

Mr. D. Taran, President, Consolidated Textiles Ltd. and Vice-Chairman, Canadian Textiles Institute; and

Mr. A. R. Tinker, Chairman of the Board and Chief Executive Officer, Cleyn & Tinker Ltd. and Paton Manufacturing Co. Ltd.

At 12:45 p.m., the Committee adjourned until 9:30 a.m., Wednesday, February 25, 1976.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, February 18, 1976

The Standing Senate Committee on Banking, Trade and Commerce met this day at 9.30 a.m. to consider Canadian textile problems.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, we have present representatives of DuPont of Canada Limited, who were unable to appear last week. They are Mr. Newall, the Executive Vice-President; Mr. Wittman, Director, Fibres Group; and Mr. Kenny, Director, Government Relations.

Have you an opening statement you would like to make?

Mr. J. E. Newall, Executive Vice-President, DuPont of Canada Limited: I have a statement of about ten minutes, which I would like to make, and then handle any questions.

Honourable senators, my name is Ted Newall. I am Executive Vice-President of DuPont of Canada. I represent a Canadian chemical company with sales of about \$400 million in 1975, investment of about \$500 million, and about 5,800 employees. About half our sales, employment and investment is in the fibres business and chemicals related to the fibres business.

We began producing fibre in Kingston in 1942. This plant has been expanded many times since and now produces a wide variety of nylon yarns for the carpet business, the home furnishings business, tires, industrial end uses and most types of apparel. We also produce orlon acrylic yarn, lycra spandex fibre and nylon chemicals at Maitland. We produce polyester textile filament at Kingston. We have under construction a new polyester filament plant at Coteau-du-Lac in the province of Quebec.

Our fibres investment is highly capital intensive; it requires \$250,000 to \$300,000 investment for each new job today.

We are located at the interface between the petrochemical industry and the textile industry, converting crude oil into yarns and fibres for use by the textile industry. As a company, we are heavily dependent on the health of the Canadian textile industry, and that is why we are here today. Our problem is that the Canadian textile industry is not healthy today, and we are deeply concerned about the present and the future. We believe the reason for its lack of health is that Canada has the most open textile market of any major textile-producing country in the world, and events of the past five years show that the implementation of the textile policy is doing nothing to arrest the rapid erosion of the share of the market held by the Canadian industry. The market share held by Canadian manufacturers of fibres, fabrics and garments has decreased from about 64 per cent in 1964 to 44 per cent today, and there is no sign of that share decline being arrested.

To be healthy the industry must supply a reasonable share of the Canadian market—65 to 70 per cent—and the industry must grow if it is to remain cost competitive. Instead it is shrinking.

DuPont of Canada, in the period 1970 to 1974, approved about 43 investment projects in excess of \$200,000 each, adding up to total expenditures in the order of \$150 million in this fibres business. Because of our deep concern about the future of the textile business and the lack of assurance indicated by the government's inaction, we have suspended this type of investment and are now confining our expenditures, not exclusively but primarily, to projects related to safety, environmental protection and energy conservation in the textile business.

DuPont must have a growing market in order to justify investment in more fibres capacity and we must have a growing market to remain cost competitive.

We strongly support the Canadian Textile Institute's proposals and belief that the industry urgently needs the type of trade policy practised by every other major textile-producing nation, including, firstly, comprehensive restraints under Article 4 of the multi-fibre arrangement. These restraints must cover the entire manufacturing chain from fibres through to garments, rather than the current fragmented, piecemeal approach applied under the textile policy today.

Secondly, the restraints must be of sufficient duration to provide for continuity and stability. Five years has been the U.S. practice. It takes three years to build a fibres plant today and several more years to get it operating profitably before there is any return to the investor. One year's restraint provides very little assistance in that kind of time frame.

Thirdly, we need fast action on requests for implementation of the policy, rather than the unpredictable, uncertain and rather haphazard approach used today. There are several examples of irreparable damage being done before any action is taken.

I would like to give two examples of situations closer to DuPont that provide substance for our support for the textile policy.

Polyester filament is a strong growth market. Consumption in Canada rose from eight million pounds in 1968 to in the order of 100 million pounds in 1975. In 1971 and in 1972, under the textile policies, restraint action was taken in three key areas, knit fabrics, woven fabrics, and surcharges were approved for application on textile filament yarns. The result of this action was a substantial drop in imports. There was a rapid increase in the domestic share of market, and this was supported by aggressive investment by the Canadian knitters, weavers and throwsters.

DuPont followed through with our decision to invest \$50 million to build the most modern polyester filament facili-

ty in the world, Coteau du Lac. This facility is highly automated, is capital intensive and employs skilled labour and will be complete and start up this fall.

In 1974, in contrast to what was done in 1971 and 1972, the world polyester situation deteriorated rapidly, imports increased significantly and at distressed prices. The government refused to implement the surcharges recommended in the first Textile and Clothing Board hearing on yarns, and, instead, a second hearing was called. The Textile and Clothing Board again recommended surcharges and the government again refused to implement them.

Downstream, our customers are in trouble with imports. Their markets are being pre-empted. One example of this, Dominion Textile recently closed one of the most modern doubleknit plants in North America because of lack of market. These action since 1973 have badly undermined the confidence in textile policy and we are in a situation where we cannot justify new capacity against this kind of market situation. If we are to remain cost competitive with the offshore producers, we must grow.

In the process of what is happening in polyester, Canada has lost, or is in the process of losing, a major petrochemical opportunity, the manufacture of terephthalic acid from Canadian xylenes. Canadian production of polyester fibres is not large enough today to support a Canadian terephthalic acid plant. Polyester in Canada is not large enough because the markets have been pre-empted by exports. Canada exports oil to the U.S. and imports terephthalic acid from the U.S., and imports finished products from all over the world. This is an excellent example of not upgrading Canadian resources.

The Chairman: Would you entertain a question at this time?

Mr. Newall: Yes, certainly.

The Chairman: You say the polyester market in Canada is not big enough to absorb the production of a polyester plant that might produce manmade fibres.

Mr. Newall: It is not large enough to support a terephthalic acid plant, the raw material for polyester fibres.

The Chairman: I see. What are the sources from which competition comes that is creating this situation?

Mr. Newall: That pre-empts the market?

The Chairman: Yes.

Mr. Newall: They come from all over the world. Garments come mainly from the Far East and yarns and fabrics from the Far East, from Europe and the U.S.

The Chairman: Are any of them subject to quota?

Mr. Newall: Some of the knit fabrics are under quota, I believe.

Mr. F. S. Kenny, Director, Government Relations, DuPont of Canada Limited: And woven fabrics.

Mr. Newall: Yes, woven fabrics. I do not believe any of the garments are under quota.

Mr. Kenny: No, I do not think so.

Senator Cook: Do I understand correctly that you mean the Canadian share of the market is not sufficient?

Mr. Newall: Canadian producers' share of the Canadian market is not large enough to justify manufacture of the raw material in Canada.

The Chairman: That is the 45 per cent we were told about last day.

Senator Cook: 100 per cent of the market is sufficient?

Senator Flynn: It "would be" sufficient.

Mr. Newall: Yes, it would be.

I would now like to move to acrylic fibres, which is another product we produce at Maitland. Acrylic fibres' main market is machine knitting yarns for knitwear, knit garments. In 1971 we initiated studies at DuPont to determine the feasibility of expanding our orlon plant to a size that would give us scale and would give us fully competitive costs. While this study was in progress, we authorized \$2 million to raise the capacity of the plant at Maitland to about 20 per cent. During this period, yarn imports were under restraint but Ottawa refused to restrain imports of garments from Asia. Garment imports rose rapidly, in fact, doubling in volume between 1970 and 1973.

Early in 1974 restraints were removed from acrylic yarn, in response to short-term market considerations. Imports of yarn rose rapidly, mainly from Korea. The increase in imports of yarn coincided with the slowdown in the Canadian market, and the result was chaos.

We have concluded that the shrinking share of market being held by our customers, the spinners and knitters, could not support a large acrylic facility in Canada. We wound up our studies, stopped the expansion under way and took the capital write-off on the partially completed facilities, and in the process Canada has lost the opportunity to have a major acrylic facility.

I would like to go back to the petrochemical example again. When Petrostar begins production in Sarnia in 1977, one of the products it will produce is propylene, about 700 million pounds of propylene. Propylene only has three major markets—acrylonitrile, polypropylene and it can also be diverted into gasoline. If we had a viable acrylic textile business, we would have the ability to justify the production of acrylonitrile in Canada and use about one-third of the propylene from Petrostar. Instead, a large portion of that propylene will be exported to the U.S. at prices around 10 cents a pound, which is the going price for propylene, and it will be re-imported into Canada as fibre and yarn and garments at prices up to \$3 a pound. So, it is another example of investment and jobs going offshore because we do not have a textile policy that supports the whole industry.

This acrylic example is a good case supporting the issue that our approach to the textile policy is fragmented, piecemeal, and, in contrast with the U.S. comprehensive approach, it is a good example of the short-term thinking of the taking away of the yarn restraints in response to a short period of buoyant markets. It is an excellent example of a missed opportunity for a highly sophisticated investment in petrochemicals through to textiles.

Senator Macnaughton: Mr. Newall, are these facts well known to the authorities?

Mr. Newall: Yes. The manmade fibres industry was...

The Chairman: Senator Macnaughton, when you say "to the authorities," what you mean?

Senator Macnaughton: To the government people in charge of policy.

The Chairman: To what sections of the government?

Mr. Newall: Our position on acrylic is one that is public, so anyone interested in it understands it, and, of course, the areas of government that we deal with are well aware of the situation.

The Chairman: Have you communicated any of this information to any of the usual government authorities that you may deal with in your industry?

Mr. Newall: Yes.

Senator Flynn: What was their reply?

Mr. Newall: They are very sympathetic, but you find they are unable to take, for a variety of reasons, the kind of action necessary to solve the problems.

Senator Desruisseaux: What were the reasons given?

Mr. Newall: Would you like to answer that, Mr. Kenny?

Mr. Kenny: I do not think we really have been given any reasons. You have expressed it very well. There have been sympathetic hearings and really no reaction.

Mr. Newall: I believe the general statement is the textile policy, as the officials interpret it and believe it must be interpreted, does not provide them with the scope necessary to take the kind of action needed to deal with this problem.

Senator Laird: Mr. Newall, the evidence we heard last week seemed to be to the effect that there is no great complaint about the setup, including the board; it was the mechanism which would handle the problem. However, the complaint was, as you yourself have said, government inaction and procrastination. Is that your interpretation of the problem?

Mr. Newall: No, that would not be my interpretation. I would agree with the second part of your statement, and I do believe that the industry would say that the board's mandate must be broadened substantially to provide for the type of textile policy that is required.

Mr. Kenny: Yes.

Senator Flynn: To achieve what you have mentioned, you would have to restrict imports of fibres and things like that from countries such as Asia. Have you been told that if you were to do that, our exports in some other field would suffer?

Mr. Newall: That is one of the statements that is generally made, yes.

Senator Flynn: Have they indicated precisely in what areas our exports would suffer?

Mr. Newall: The areas where the most troublesome imports come from are not large consumers of Canadian exports, I believe. We have a substantial trade imbalance with most of the Southeast Asian countries.

Senator Flynn: So, you do not accept that reasoning?

Mr. Newall: No.

Senator Laird: In that connection, Mr. Newall, the actual complaint appeared to be that the damage was done

before any action was taken. In other words, in the United States they have a system where they can take immediate action, whereas in Canada apparently they do not. The damage is done before there is any real action to protect any particular branch of your industry.

Mr. Newall: That is correct. A good example of this is the polyester filament yarn situation, where in the first set of hearings enormous damage was done. I have forgotten just how long it took to go through the whole process, but it was about six months, I believe.

Senator Laird: What you people want is something comparable to the American system.

Mr. Newall: Exactly.

Senator Barrow: What is the American three-tier system?

Mr. Newall: Later Mr. Brady will speak specifically to the issue of the U.S. system and the system used in textiles by other countries. If we may hold that question now, he will develop that fully later.

The Chairman: We will hold it now, but we will ask it later.

Senator Cook: Mr. Newall, in connection with the acrylic plant, in order for us to have some idea of the size of the operation, could you supply us with figures illustrating the amount of capital involved, the amount of labour which would be employed and the likely contribution to the GNP of such a plant?

Mr. Newall: I could give you some numbers off the top of my head, but I would prefer to supply them later so that they will be more accurate.

Senator Cook: That is fine so far as I am concerned.

Mr. Newall: I can say that the number of jobs at the acrylic plant would be about 150.

Senator Cook: And you will give us the information concerning capital and the likely contribution to the GNP later?

Mr. Newall: Yes.

I should like to conclude my statement, honourable senators, by saying that a strong textile industry is required to support a healthy fibre business, and the fibre business is a major customer of the petrochemical industry. Without having a healthy fibre business we will not have a full petrochemical business. Every industrialized nation in the world wants to have a healthy petrochemical business. The textile industry does not need any extra special treatment; we just need treatment comparable to that accorded to the industry by every other major textile-producing nation.

I should like to state that there is no need for new studies; we have had many studies in the industry over the past five years. And there is no need for new measures; the mechanisms are provided under GATT.

To survive we must have 65 to 70 per cent of the Canadian market. We have a modern industry. It is efficient. Every study undertaken by the government and by outside consultants has shown that the industry is cost competitive with most of the rest of the world. We are capable of meeting our responsibilities to the consumer. The only ingredient missing for a healthy industry is a sensible trade policy and the will to implement it.

Senator Hays: Mr. Newall, in the last part of your statement you say that we are competitive. Do I understand you to say that we are competitive with world suppliers?

Mr. Newall: The answer to that is that we have productivity levels, investment levels and levels of modernity that are equal to the best in the world. In areas where we are competing with somebody paying ten cents or twenty cents an hour for labour—and, for example, ours is up in the four-dollar area in the fibres plant at Dupont—we are at a major disadvantage. There is no way you can overcome that in any industry.

Senator Hays: So we are not competitive with China and areas like that.

Mr. Newall: No. I do not know of even a capital intensive industry in Canada which can be competitive with China.

Senator Hays: Well, I can give you a few—barley, wheat, and so on. I am a farmer. But let me ask you another question. If I understand correctly, with respect to by-products of the petroleum industry you use natural gas and other parts of the petroleum product.

Mr. Newall: That is right.

Senator Hays: If oil goes to the world price and gas goes to \$2 per thousand cubic feet, which is the price being charged in the United States, how much will that increase your cost of the raw material to produce the textiles you are producing now?

Mr. Newall: We would sell acrylic fibre, say nylon, to take an example, for \$1 a pound. Out of that \$1 perhaps 20 cents would be for benzene. So our concern with the price of oil and gas is this: we believe that the petrochemical industry must have access to feed stocks and that Canadian oil and gas must be priced at levels which are no higher than the average price in the United States or than the world price. So long as they are no higher than those prices, so long as our costs are competitive relative to our competitors, we are all right.

We put an enormous value-added into that cubic foot of gas. It goes from 20 cents of raw material to \$1 in fibre and then it goes on, in carpets, to \$10 or \$12 when you get to the retail level.

Senator Hays: Are you talking about a 20 per cent increase on a suit of clothes?

Mr. Newall: Oh, you would not be able to find it. In a sweater which retails for \$15 there might be 80 cents worth of acrylic fibre and 5 cents worth of gas.

Senator Hays: The rest would be used up in labour and services?

Mr. Newall: It is labour, capital and all the other costs of manufacture. The raw material is a small portion of the cost of the finished material.

Senator Hays: What percentage of Canada's petroleum industry production do you use? Do you know?

Mr. Newall: It is about 5 per cent.

Senator Hays: It all comes from the petroleum products, does it not?

Mr. Newall: There are two kinds of man-made fibres: cellulose and non-cellulose. Cellulose are based on

wood pulp; non-cellulose are all based on petrochemicals from gas and oil.

Senator Hays: Did you say you use about 5 per cent of that?

Mr. Newall: The total petrochemical industry uses about 5 or 6 per cent of Canada's oil and gas. The textile industry would be some proportion of that, probably about 1 per cent or a little less.

Senator Hays: What is the difference between the cost of the fibres we do, or could, import from China to make all of the products we have been discussing this morning and the cost of the fibres that are made here?

Mr. Newall: What's the difference? There are no fibre imports today. Most of the imports from China today are finished goods, so we do not experience fibre competition from China today.

Senator Hays: Do you know the cost of the product if we did import it?

Mr. Newall: No, I do not, but other witnesses later on will be able to speak on that with more expertise than I.

Senator Hays: Thank you.

Senator Desruisseaux: Mr. Newall, has your firm ever been consulted with respect to the formation of a national textile policy in Canada?

Mr. Newall: Yes, extensively. As a matter of fact, the fibre producers in Canada participated in a very extensive study with government on the man-made fibre industry, in which all aspects of the industry were studied at great depth from an international, competitive point of view, so we have been consulted extensively by government in terms of textile policy, and specifically in relation to the fibre aspect of the industry.

Senator Desruisseaux: What have the results of that been?

Mr. Newall: There have really been no results.

The Chairman: Are there any other questions?

Senator Macnaughton: Mr. Chairman, if I understand the position correctly, our friends have advised the policy-makers in detail as to cause and effect in their industry, but there has not been any action taken along the lines they want, obviously. We do not as yet know the other side of the case, but your complaint, Mr. Newall, is that the government does not need any more facts, and you do not need any more investigations; that they know the situation and they have decided on a policy, for reasons of their own, which do not happen to please you. Is that it?

Mr. Newall: Yes.

The Chairman: I think we were told that the policy seemed to be to liberalize international trade. Do you have any comment?

Mr. Newall: That is probably a good description of it, I think. We find that our approach to the international textiles trade is by far the most liberal, open and generous of any major textile-producing nation in the world.

The Chairman: As a result, your share of the domestic market is decreasing.

Mr. Newall: Rapidly.

The Chairman: Any other questions? In that case, thank you very much, Mr. Newall and gentlemen.

Our next witness, Ms. Pestieau, has arrived. Would you come forward, please? Will you introduce yourself and then proceed?

Ms. C. Pestieau, Associate Economist, Economic Policy Committee, C. D. Howe Research Institute: Mr. Chairman, I do not have a prepared statement to make to the committee. I really came here to answer any questions you might have about the report that I submitted to you. This report was commissioned, as you will see from examining it, by the Canadian Economic Policy Committee. The name of the Economic Policy Committee members can be found at the back of the book.

It took quite a long time to produce this report, and I think I went into the subject in as much depth as I was able to during the period involved. The object of undertaking this report was to try to produce an impartial appreciation of textile policy, I think from two main points of view.

The first of these was the idea of an industrial strategy in Canada. When I started working on this report, industrial strategy was a very fashionable concept, though it is no longer as fashionable as it was, and it was thought at that time that we might be able to solve some of the perennial problems of the manufacturing industry in Canada through adopting a series of industrial strategies for each sector, to make Canadian manufacturing more competitive, or to phase out parts of it which were no longer viable, thus increasing and improving the distribution of our resources among the various sectors—agricultural, extraction, services, manufacturing, and so on.

The second was to look at policy in terms of Canada's option of free trade—not completely free trade, but, rather, trade liberalization—and from the point of view of safeguard and adjustment mechanisms. These, fortunately for me, are still topical, because they are part of the GATT negotiations; that is, the idea that any kind of trade liberalization program must be accompanied by some effective safeguard mechanisms, so that if you find that you are suddenly being flooded with foreign goods as a result of trade liberalization measures, you have some action that you can take. If this does not exist, obviously no one will liberalize trade. This was in the Tokyo declaration, and it is one of the major questions at issue presently in Geneva.

Another thing that should accompany safeguard measures is an adjustment program, so that if it is found that some parts of the industry are perhaps not as viable as others, there will be some way of encouraging them to leave that sector, rather than just hanging on, asking for more protection, trying to lobby as many people as possible, and generally preserving a status quo which is no longer tenable. There are therefore two elements, safeguard mechanisms and an adjustment policy, and these should both be components of any kind of trade liberalization program. I was looking at textile policy in this context as well. Industrial strategy, as I say, and a safeguards adjustment policy or mechanisms were the two things I had in mind.

I think the findings of my report are fairly well summarized in the two last chapters. I did not find the policy very satisfactory, as I think you may gather from reading it even quite quickly. In many ways I support the members of the industry whom I heard this morning. I arrived late,

but I read the brief of the Canadian Textile Institute on the reasons why they consider it to be unsatisfactory. I do not support them altogether, because I think there should be some kind of adjustment element. I think it should be admitted that there are some sectors which are not viable, and there should be some kind of encouragement for firms, and employees to leave those sectors and lines that are not viable; but in general I do find that the policy is unsatisfactory, and what I find to be particularly serious is that there seems to be very little confidence existing between the two main groups in this field—that is, the government and the industry. This is one of the things that struck me from the very beginning, and about which I hoped I would be corrected as I talked to more people and looked at more aspects of the question. This lack of confidence, and what may be described almost as a deterioration in the relationships between government and the industry seems to me, anyway, to nullify any hope of a sectoral development policy, particularly in a very delicate area where the industry, efficient, is not competitive in terms of being able to compete with low-cost imports from any part of the world.

This lack of confidence is one thing that struck me. A second thing was that no cost-benefit analysis had ever been done of this industry. As an economist, this is what strikes me the most, and which is essential if we are going to have a policy which involves a certain allocation of resources. I must say this is one of the cheapest government policies we have ever had, however much it costs—and I have mentioned this at the back of my book—and it is really very little, less than half a million dollars a year, in terms of government outlay. Its cost to the industry and to the consumer, of course, is another matter; but in terms of actual government expenditure it is a very cheap policy. If there is going to be any kind of expenditure, however, there should be a cost-benefit analysis of what the industry contributes to Canada. This has never been done, and I hope that when the policy is revised such a cost-benefit analysis will be carried out. Of course it is a delicate question, both politically and for all sorts of other reasons; but if you are going to have a policy you should do a cost-benefit analysis.

Those are the main reactions I have. I would be glad to hear any questions you may have on the report that I have submitted.

The Chairman: I am curious about some of the statements you make in dealing with textile policy in your study. You say, this, for instance:

Over the last five years the textile industry has enjoyed a special status within Canadian manufacturing, being the object of a series of particular measures collectively referred to as the "Canadian Textile Policy."

Would you care to enumerate those?

Ms. Pestieau: Well, the first and most important, from everybody's point of view, I think, is the creation of the Clothing and Textile Board, which does not exist for any other sector. There is the Machinery Board, of course, there is the Anti-Dumping Tribunal, although the Anti-Dumping Tribunal typically deals with any kind of dumping in any industry, whereas the Textile and Clothing Board deals specifically with textile goods and clothing goods. This is, if you like, a measure which is set up for one particular branch of Canadian manufacturing. In this way I think it is unusual, because we do not usually set up things for one particular branch of manufacturing. And then there are

other measures which have not really materialized as their architects hoped—such as the productivity centres that were supposed to be set up. These too would have been oriented specifically to textile and clothing production. When I said that the industry had been a centre of these particular measures, I wanted to stress the sectoral emphasis here, because in the other programs we have in Canada like PAIT, LDR or PEP and so on, these are directed to any particular firm which is eligible all over the manufacturing spectrum, whereas the Textile and Clothing Board addresses itself specifically to textiles.

The Chairman: Well, what I was thinking about was the scope of the board. It strikes me that the function of the board is for the purpose of determining anti-dumping, and they must determine that the domestic industry is endangered by the imports. The question then arises as to what authority they have to take effective action. They do not have authority to impose an embargo until the question is resolved. In the United States, as I understand it, there is the right for a quota to apply; that is to say, an embargo can be imposed right away and then they can inquire into the situation afterwards.

Ms. Pestieau: Well, our system is very different, to start with. First of all, the Textile and Clothing Board cannot look at anti-dumping; you have to go to the Anti-Dumping Tribunal. So that confuses the issue slightly anyway, in that the Textile and Clothing Board does not have a very wide mandate. It can only look at injury due to imports, so that you have to link the injury very specifically to imports. As I am sure you know, having read the CTI brief, this takes a very long time because the imports have to be in the country before you can actually prove that domestic production has been injured by them. You can then have a threat of injury, but that is also difficult because you have to prove that orders have been given to foreign suppliers which are likely to injure domestic suppliers.

The second point is that, not only do they not have power to impose embargoes but they do not even have power to set up quotas themselves. They have to make a recommendation to the minister, who then decides, in consultation with many other groups, whether or not he is going to put on a quota or negotiate a voluntary export restraint.

The Chairman: So this measure and the authority of the Textile and Clothing Board does not deal effectively or reasonably immediately with the problem presented by importation of foreign materials?

Ms. Pestieau: That is true. But I do not think it was intended to.

The Chairman: Whether it was intended to or not, the thing that bothers me is to call it a national policy if it is ineffective. Do we devise a national policy the object of which is to be ineffective?

Ms. Pestieau: I could not answer that, but talking about the textile clothing policy and the Clothing and Textile Board, I find that one of the major problems is in the time horizon here. It seems to me that the government could have wanted to do one of two things. First, to have set up a mechanism for imposing rapid restraints on imports on a sort of emergency basis, in which case you would have to have a direct line between importations as they are coming in and some kind of embargo or control directly, without

all the problems of hearings and proving injury and the rest of it. I think the government decided not to do that because it was against our policy of trade liberalization. But if you do not have that, then the alternative is to have something like the Clothing and Textile Board which is impartial and which needs to be satisfied that there is injury, and in this case it is going to take a long time to get your measures or your import controls through. As I showed in the chart somewhere, I think it takes about ten months. In that case it does not seem logical to take them off immediately because you will only have had them on for quite a short time. If you have controls that you negotiate very carefully, making sure that you have the right article and that you are being fair to everybody, then it would be logical to leave them on for a little longer. But at the moment they seem to be falling between two stools, because it takes a long time to get them, and then as soon as they get them, they have to suspend them because they need an annual review to show that they are still necessary.

The Chairman: But the real test in the legislation we are talking about, and also in the amendments to the Customs Tariff Act, is to find whether the domestic industry is endangered. That seems to be what is behind the authority given to the Clothing and Textile Board, yet that board, while it can make such a finding it cannot do anything about it except refer the question to the minister.

Ms. Pestieau: That is right.

The Chairman: You are familiar with section 8 of the Customs Tariff Act. We had it before our committee in 1970, I think, and it is to the effect that if the Governor in Council determines that there is a danger to the domestic industry, then he is given the authority to impose a surtax, and the measure of that surtax is the amount that needs to be added to bring up the surtax on the imported goods to the level of the domestic price. I think you would agree that that would be a very effective way of dealing with these imports. Is that right?

Ms. Pestieau: Yes, I think it would.

The Chairman: Unless you are a devotee of liberalizing international trade—and I do not quite assume that you are.

Ms. Pestieau: Well, it would be difficult, perhaps, to be so in this room, but I think that there should be some liberalization, and I would like to come back to the need for some adjustment. Where I support the industry quite strongly is in the situation that if we decide we are going to protect something, then I think we should protect it decently. I am not saying by that that we should protect every job in Canada, because I think that is not a very forward-looking point of view.

The Chairman: Well, I do not think there has been any suggesting of that, and I do not think we embarked on this inquiry on the basis of protecting every job in Canada.

Ms. Pestieau: No, but the problem with the Textile and Clothing Board from the adjustment point of view, at present, is that if they find that Canadian manufacturing has been injured they almost automatically have to give it—well, they cannot give it—they have to recommend protection, because they cannot offer it anything else in the manner it can be done in Japan, Sweden or the U.K., such as paying for scrapping machinery and helping people to start off elsewhere.

The Chairman: Or in the United States.

Ms. Pestieau: Yes; it is more in terms of helping employees in the United States that they are paying for scrapping machinery.

The Chairman: Yes.

Ms. Pestieau: So this means that every single time they found injury they found Canadian production is to be viable. In my opinion, that is really not all that sound in economic terms, but it is very understandable, because there is no alternative. They can only decide that someone has been injured, that situation being proved and clear. They then determine how the injured people should be helped. They decide that the only manner in which they can do it is by recommending some form of protection, whereas in other countries they would be able to recommend protection for a certain number of firms or a certain number of processes, but for others recommend that they be offered accelerated write-offs or scrapping compensation and that they should direct their resources to something else.

Senator Cook: Mr. Chairman, I do not believe I have grasped all the points of this excellent survey, but I would like to direct the attention of the witness to pages 94 and 95, from which I will read three paragraphs for the record, which we might then discuss. They seem to bear out what was said by the previous witness. The first full paragraph on page 94 reads as follows:

While it would be foolish to claim that Canada's international conduct in the textile field has been perfect, it does appear that the federal government has followed the letter and spirit of the ITA closely. The repercussions on domestic production and on Canada's success in negotiating advantageous terms of entry or export deals with countries that have benefited from the Canadian government's liberal safeguard measures will be watched by many of those concerned with reform of Article XIX of the GATT.

Going on to the second paragraph on that page, it reads as follows:

Unlike Canada, the United States and the European Economic Community refer to Article 4, rather than Article 3, of the ITA when negotiating protective restraints on textile imports from low-cost sources. Article 4 allows participating countries to seek a bilateral solution to the safeguard problem by concluding agreements on terms mutually acceptable to the importer and to the exporter in order to "eliminate real risk of market disruption", while assuring expansion of trade in textiles and equitable treatment of participating countries (Article 4.2).

The footnote on page 95 states:

Several reasons have been put forward to explain the Canadian government's preference for Article 3 agreements, including its basic free trade option, its desire to assist the developing countries, its fear of retaliation against Canadian exports, . . .

This is a good one:

. . . and its desire to keep domestic producers on their toes. In view of the consequences of the choice of agreement for the textile industry, an examination of these arguments, particularly the real danger of retaliation, seems warranted.

The first question I would like to ask the witness is, in view of this different policy being followed by Canada in following Article 3 rather than the policy of the United States and the European Economic Community which follows Article 4, has there in fact been no examination of these arguments in view of the real danger to the industry in following Article 3? In other words, you say, "an examination of these arguments, particularly the real danger of retaliation, seems warranted." Has no such examination taken place by the government?

Ms. Pestieau: I am not really in a position to say. There was a great deal of discussion about the sale of the Candu reactor to Korea at one stage. I find it quite difficult to believe that in such a sort of lumping kind of deal, as we term it, a once-and-for-all sale of a reactor, compared to textile goods and clothing, this was really a factor, but it is something that has been brought up. I am afraid I could not answer your question. It would have to be posed to a government authority, but I think that this should be discussed more widely.

With respect to the basic free-trade option, of course, the arguments can be found in the Economic Council's report "Looking Outwards", where it is stated that Canadian manufacturing can only become competitive through much freer trade, and even goes so far as to state that we should reduce our trade barriers unilaterally. In that case I believe the idea would be that in order to endeavour to secure markets abroad for our goods, because all our industry suffers from different problems of short product runs, too many different product lines, trying to satisfy too many types of consumer tastes and so on, if we could get access to foreign markets and so have longer production runs in all Canadian manufacturing, then, of course, we would have to open our market to a corresponding degree. However, I believe that we have made an effort, as it were, in the last few years, being almost the only country to use Article 3 agreements and apply the ITA really as it was negotiated. Having made this experiment, in my opinion maybe we should review the results.

The Chairman: I notice your comment in dealing with the textile policy at the bottom of page 1, where it is stated:

As long as there are a large number of countries with significantly lower manpower costs than Canada, Canadian textile and clothing production, however technically efficient it may be, will be on the defensive vis-à-vis competing imports from these low-cost sources.

I wonder now a presentation of that material could be said to warrant liberalizing the international trade policy of the Canadian government and its impact on the textile industry in Canada. There does not seem to be any hope held out for a change in those cost factors, so they will continue to exist. Is there any government policy which you can indicate that is directed to that end, or is it just something you will have to live with?

Ms. Pestieau: That is what I mean when I say that as I understand the industry it is efficient, but not competitive in the sense that with labour making up such a relatively high percentage of total costs it will always be threatened so long as there are developing countries with vastly lower labour costs than ours. I do not see any way out of this situation, and that is one of the fundamental misunderstandings, as I see it, of the policy, the introduction of the criterion of viability. In the Textile and Clothing Act, one section provides that the Textile and Clothing Board

should not recommend special protective measures unless the production in question shows signs of being viable in the Canadian market, in the long run, defended only by the tariff, without quotas, embargos, voluntary export restraints or whatever. This, in my opinion, most people, most people certainly in the industry with whom I have spoken, consider to be quite unrealistic, because as long as there are developing countries and, to some extent, state-administered countries with state-administered pricing such as in eastern Europe, viability is Utopian. This seems to have been a misunderstanding from the word "go." Whether this was put in . . .

The Chairman: Did I understand you to say that viability was a Utopian idea?

Ms. Pestieau: In the textile industry, so long as there are developing countries with very low costs which also have access to high technology. I am thinking, of course, of the case where either Japanese production or Japanese fabrics are used by very low-cost Eastern countries.

The Chairman: Why should we be wedded to that policy?

Ms. Pestieau: To which policy?

The Chairman: To the policy of maintaining a liberalization on the exports of developing countries to the detriment of Canadian industry.

Ms. Pestieau: There is the question of retaliation, which we have been discussing. How realistic, how serious this is, I do not know. I have not found any serious instances, but I cannot say that I am really in a position to look. That is one thing, the question of retaliation.

The second question is that of allocation of resources in Canada. There are many people who think that Canadian resources would be better employed in an industry in which value added per employee is higher, because the textile industries—clothing, knitting, primary textiles—are fairly low in the scale of value added per employee. I think they are something like sixteenth, eighteenth and twentieth out of the 20 industry groups as regards value added per employee. So we should allow this production to be done overseas and divert our resources into an industry in which value added per employee is higher. There are two problems here . . .

Senator Cook: That is a very nice statement, but how are you to divert all the other industries, for instance, which have already been employed?

Ms. Pestieau: I was going to come to that. One problem is that the textile industry is no more homogeneous than many other industries. I think it is particularly unhomogeneous in that value added per employee is very high, or comparatively high, in fibre production, for example, and it is much lower in apparel and the making-up end of the industry.

So, to look at the average of value added may not be very fair, because there are some parts of the industry where value added per employee is fairly high, and the trouble is that the industry sort of hangs together, as we have been hearing, in that if we cannot get markets for the fibres and fabrics, no one is going to produce them. So the high value added end will disappear with the low value added end. That is one problem.

The second problem is, of course, which are the high value added industries which are going to employ these

resources? At present it does not look as though there are very many. Here the argument depends on the manpower supply situation that is forecast for the 1980s and 1990s, where it is thought that there will be a smaller and more highly trained supply of manpower, and therefore we will not need as many jobs, particularly relatively low skilled jobs, as we now need, and that we should be beginning to shift people out of low value added jobs, even if we have to pay for quite an intensive period of retraining, in order to face up to the labour market situation in the late 1980s and 1990s, when there will be such a demand for manpower that it will be easy—in fact, desirable—to get people out of the low value added jobs. That is how the arguments goes, but I do not think I can draw a conclusion one way or the other.

The Chairman: We end up in this position, that so long as the government remains wedded to the idea of liberalizing international trade, particularly in dealing with developing countries, we cannot expect any change in legislation that would be directed towards meeting the position of the domestic industry.

Ms. Pestieau: You are sort of asking me there to speak for the government.

The Chairman: No; I just want your view.

Ms. Pestieau: I would be a bit more optimistic than that; that if you could get some kind of serious adjustment element into the policy, some serious *quid pro quo*, for better protection, it would be possible to persuade the government to give more adequate protection; because, as you know, in the act there is a condition that firms requesting special measures of protection because they have been injured, or submitting that they have been injured, must submit adjustment plans to the Textile and Clothing Board to show how they are working towards a more competitive stance vis-à-vis imports. This, when it was introduced, was regarded as something very progressive and new in Canada, that firms were obliged to submit their adjustment plans, and it was thought that this would give the board a kind of leverage, that if it found that the adjustment plans were not in the direction desired—I will say something in a moment about the direction desired—if they were not in the direction of greater competitiveness, they could refuse to recommend the protection.

The Chairman: We were told on the last occasion that in Korea, on a finished man's suit, a woman working on the facings, stitching, et cetera, is paid at the rate of 14 cents an hour. The average wage for a Canadian workman is \$4.62. How can you make any adjustment on that?

Ms. Pestieau: I am not sure that all women in Canada are paid \$4.62, either. However, I think it might be possible to decide that certain Canadian processes of fibres or fabrics have more chance of being at least half competitive, and they should be assured a decent protection, so that they could produce at a scale, as we have heard from the DuPont representatives, which would enable them to have optimum size plants in Canada; in which case at least the earlier stages of the processes would be competitive, because I think the fibre, with optimum size plants . . .

The Chairman: It would appear to me that the textile industry in Canada, by adjustment, and possibly, from what we have seen so far, the performance of some miracles, has to meet the threat of import competition, even though there is a finding by the board that the domestic

industry is endangered. The Canadian government policy ignores that finding, I suggest to you.

Ms. Pestieau: I do not think it ignores it. It agrees that there is injury, but presumably if it does not recommend protective action, it thinks that that particular branch of the industry should be allowed to disappear if it cannot weather this particular cyclical problem.

Actually this has not happened all that often. Usually, when the board has found injury, it has recommended some kind of protection action; and the government, in most cases—except for their famous surcharge on polyester—has agreed that something should be done. The problem seems to lie in the fact that the recommendations of the board are watered down and take a very long time to be acted upon. In addition, the government never says exactly how far it is prepared to go until it has conducted negotiations. Because of those factors, a general situation of uncertainty prevails for a very long period.

The Chairman: What do you mean by “watered down”? We were told at the last meeting, for example, that Korea substantially overshipped its quota—perhaps by 80 per cent, 90 per cent—as a result of which the Canadian government more or less slapped Korea on the hand and said, “Don’t do that again!” and for the next year it increased Korea’s quota. Again, Korea overshipped the new quota. Also, Korea undertook to supply certain statistical information, which it then refused to supply, and our government did nothing.

I would not call that “watering down”; and I am wondering just what you mean by the term “watering down”.

Ms. Pestieau: My reference was to the fact that the board, in many cases, recommended so many thousand shirts, or whatnot, and the government then increased the quota slightly, or negotiated the restraints to start from a different month, and so forth. I cite a few cases of this type of thing in the report and, as well, you were given many more in the submission last week by the Canadian Textiles Institute.

I think the trouble is that there are too many elements involved. The government is obliged, almost inevitably, to increase the quota under Article 3 of the ITA, but that is a different thing from not stopping overshipping.

I have been told that the government never seriously meant to implement section 27 of the act, which enables it to place embargoes or to take unilateral action, and I think that is yet another area of misunderstanding between the government and the industry. That section was put in as a sop to the industry. On the one hand, sections 27 and 28 of the act were put in as a sop to the industry; on the other hand, there is the viability criterion, which was put in as a sop to the free traders and to those who were opposed to the textile policy in general, particularly, I think, those in the western provinces. The intentions of the government in this respect do not seem to be very clear.

Senator Desruisseaux: I might say, first of all, Mr. Chairman, that we have somewhere on record that trade obligations deterred the government from coming to the assistance of the textiles industry.

I am wondering whether you have reached any conclusion as to the effect of the GATT arrangements on the formation of a textile policy for Canada.

Ms. Pestieau: I have not found that there is any sort of specific contractual obligation, apart from the ITA, which

was negotiated during the life of the textile policy. The textile policy started working in 1970, although the legislation was not passed until 1971. It has been in force several years before the ITA was negotiated. In fact, I think the ITA has taken, if not the specific wording, many of the procedures from the Clothing and Textiles Board. So, that was a contractual obligation which came after the policy. Before the policy, there was only the LTA, the Long-Term Agreement, regarding textiles, which did not really impinge very much, I do not think, on the kind of textile policy which was adopted.

Senator Desruisseaux: But the whole question of textiles has been a difficult one to handle under the GATT arrangements.

Ms. Pestieau: You are now speaking of the Tokyo Round?

Senator Desruisseaux: Yes. As reported in the *Ottawa Journal* of Thursday, February 12:

The Canadian ambassador to the negotiations under the General Agreement on Tariffs and Trade (GATT) in Geneva said Wednesday the talks will continue at least until late 1977 and may result in a more specialized and more efficient economy for Canada. The 1975 deadline originally set by the international group was unrealistic, Rodney de C. Grey told the Canadian Importers Association here. He said the GATT countries were seeking common grounds to determine how goods should be evaluated for tariffs. Canada’s goals include making the system more predictable for importers and eliminating undue discretion confided to officials.

So, the talks will continue until 1977. At that time, what will the textile situation be?

Ms. Pestieau: I think a good many people are for letting the ITA alone. The negotiation of the ITA was quite difficult, and I think there are many countries that have an interest in not changing it.

With respect to the kind of interpretation and Canada’s trade liberalization stance, I think that the Canadian government’s negotiating position is towards more trade liberalization. Therefore, in order to bear this out and show that we are in favour of trade liberalization, the government, presumably, will be interested in continuing the negotiations under Article 3, which is a more liberal article than is Article 4.

That is about all I can say. I do not feel anyone is very much interested in changing the ITA. However, under the ITA one can be more or less liberal, and I think that since the Canadian government is attempting to reduce trade barriers for Canadian goods abroad, it will probably be interested in being more liberal under the agreement.

Senator Desruisseaux: Do you feel we should be more liberal in view of what has happened in the textile industry to date?

Ms. Pestieau: It is obvious that the industry is being hurt; its percentage of the domestic market is declining. The adverse effects, presumably, have to be weighed against what Canada gains as a result of trade liberalization abroad. I am thinking of the argument of the sectors approach in relation to the upgrading of raw materials, particularly non-ferrous metals and wood products. As you know, there is that sectors approach which Canada is adopting at Geneva, particularly in relation to zinc, lead,

nickel and copper. In other words, we are attempting to get foreign tariff and non-tariff barriers reduced so that we would be able to upgrade these materials in Canada.

I see the need for a cost-benefit analysis of the textile industry in terms of what it contributes to the Canadian economy in general. When you speak of 180,000 jobs in the textile industry, that has to be weighed against whether there will be fewer or more jobs in mining, or future jobs in other fields and in other areas of the country. Obviously, I am not going to commit myself to coming down in favour of one or the other. That is the government's job, I feel, after it has been well informed, but no one has done this type of analysis.

Senator Hays: I am sympathetic with what you are saying, so you are not really alone.

Senator Lang: A Westerner!

Senator Hays: I am almost alone most of the time. I am a farmer and I sell Korea wheat and I sell China wheat. Also, I have to supply my employees with overalls and I am down to the point where I am going to have to skin coyotes because clothing is becoming so expensive.

Do you believe we should have a textile industry? If so, how much protection should it have? You philosophize all the time, which is something we all do, of course. I think we should have a textile industry and I want the employees to be paid enough so that they can eat T-bone steak, because I raise cattle; at the same time, I want to pay as little as possible for clothes.

To get back to my question, do you believe we should have a textile industry and, if so, how much protection should it have?

Ms. Pestieau: Yes, I think we should have a textile industry. A good many of my colleagues, my fellow economists, do not agree with me. I think we should have a textile industry, but I think it should be a limited industry. I put forward a suggestion which, of course, is regarded as a wild academic suggestion, in this report, which is that we should perhaps concentrate on one particular fibre in its downstream uses so that we could get the whole Canadian market for that fibre, but would allow freer entry for other fibres so that we would have competition in Canada. Obviously this is a very theoretical suggestion.

I think we need to keep two things in mind. The industry we do protect should be adequately protected so that it is possible for those in it to make long-term decisions. On the other hand, we should keep a fair amount of competition, not only to protect the Canadian consumer but also to make sure that the people who could move out of the textile industry when there are jobs ready for them will move out of it fairly easily. I think this is what the government was trying to do when it set up its famous piecemeal protection, about which you heard last week, where you had to prove each case on its own merits. I do not think that has worked out, because I believe it takes too long to prove injury, and the protection given, once injury has been proved, is too short.

Senator Hays: So you agree there should be a textile industry. My second question is: How much protection? Do you think it is getting too much protection, or that it needs more?

Ms. Pestieau: I think it is getting the wrong kind of protection. Perhaps too much of it is getting too little

protection. I believe some of it should get more adequate protection and some of it should get perhaps less or no protection.

Senator Desruisseaux: What is the percentage of the whole production that we have in Canada? What is the percentage of the total sales of imported textiles that is under protection?

Ms. Pestieau: You have heard from the industry. With respect to imported goods, I think between 45 and 50 per cent is Canadian and between 50 and 55 per cent is imported.

Senator Desruisseaux: But what is being protected?

Ms. Pestieau: It is all being protected by tariffs, and quite high tariffs compared to other industries.

Senator Desruisseaux: The whole 55 per cent?

Ms. Pestieau: As far as I know, all textile goods are protected by some tariffs. I am sure people afterwards will contradict me if I am wrong in this, but I think almost all textile items are subject to tariffs. These are quite high tariffs, between 20 and 30 per cent, and some are higher than 30 per cent. They are all getting some protection, but I think what you are talking about are the special import protections, either the voluntary export restraints...

Senator Desruisseaux: Restraints and quotas.

Ms. Pestieau: And quotas, yes. That is a declining share. I think the Textiles Institute calculated it was somewhere around 7 per cent. It used to be considerably higher.

Senator Walker: Mr. Chairman, I think this charming witness has been very enlightening, but I do not think that we can go further with her. We have got the economist's point of view; every answer is mixed with circumlocution. Cannot we get down to brass tacks and get a witness who has some specific recommendations to make? In other words, this has gone on and on and on. Apart from Senator Hays' question, I do not know that I have been enlightened very much.

The Chairman: Senator Walker, you are distinguishing between an economic presentation and a factual presentation of the position of the industry. In the economic presentation it does seem that there are some basic things we should evolve anyway. This witness has written a rather learned report and study.

Senator Walker: There is no question about that.

The Chairman: She has been presenting her viewpoint on the basis of the information she has gleaned, plus the application of economic principles. We still need the factual position to be developed.

Senator Cook: At the risk of offending Senator Walker, may I ask one more question? Can the witness tell us whether other industries are facing the same difficulties and are operating with the same problems as the general ones we are talking about in the textile industry?

Ms. Pestieau: Yes, there are several. I think this is important. The government has introduced a footwear program, which I do not think is very successful either, at least not from the industry's point of view. It looks as if there may be similar problems in the electronics industry and in the automotive parts industry.

Senator Walker: You don't pretend to be able to give the answers. You are just outlining to us the problems, are you not?

Ms. Pestieau: Yes.

Senator Cook: She has more answers than we have; that's for sure.

Senator Barrow: I should like to ask one more question. At page 89 of her book the witness says:

The TCB has neither the power nor the mandate to offer textile manufacturers what they really want—three-tier protection or global quotas guaranteeing their share of the home market.

What is the three-tier protection system that you refer to?

Ms. Pestieau: It is virtually Article 4 of the agreement under the ITA, which was being discussed with the previous witnesses. Instead of giving piecemeal protection because it was found that a particular textile item has been imported in such a way as to injure domestic producers, you look at the whole gamut of production of that item—the garment, the fabric and the fibre. If it is found that there is serious injury to any part of this three-tier you assure that the whole continuous process has some type of protection. At the moment I think the industry has a very good case. For example, the fabric may be protected but the sweater-makers who use it will not do so because they are being inundated with sweaters coming from abroad; there is no protection at the consumer end. What we have been doing at the moment is giving this piecemeal protection on proof of injury in a specific category, but without any regard to the other ends of the process, the inputs or the outputs.

Senator Barrow: This three-tier protection is the system they use in the United States, is it?

Ms. Pestieau: Yes.

Senator Walker: They go further in the United States. The government really gives protection there in needed industries, does it not? They have embargo or total prohibition. Have you ever considered applying that to Canada in the instance here, particularly in parts of the textile industry?

Ms. Pestieau: You can clamp down on imports after proof of injury. In fact, that did happen, I think, with nylon fabrics from Korea. I believe it is the only case that has occurred recently in Canada.

Senator Walker: Did they declare an embargo on that?

Ms. Pestieau: Yes. I think it was a 60-day absolute limit.

Senator Walker: Why do they not do that constantly? I remember when I was a minister, back in 1961, we were having great trouble with the Japanese. They get tougher and tougher; they know everything. Finally we said, "We will put an embargo on you." That cooled them off a little bit.

I had to go to India once to get India to raise an embargo on the importation of our goods. I do not understand why we fool around the way we seem to be doing here. Surely, if we can have an embargo to teach them a lesson, why do we not apply it? I suppose we are worrying about reciprocity, and someone will have one put on us.

Ms. Pestieau: There was a problem with Mexico with reference to the wood and pulp and paper products some years ago. We prevented their imports and they embargoed our exports at the border, which wasn't all that much fun.

Senator Walker: But it brought things to a head, did it not?

Senator Macnaughton: Could I have an explanation of a matter referred to on page 89? It is the last paragraph, at about the centre of the paragraph, where it says:

Nevertheless, without prospective planning, the whole TCB inquiry and implementation procedure will always be open to criticism as a long-drawn-out, short-term policy.

What is "prospective planning"?

Ms. Pestieau: To my way of thinking, it is a getting together, a meeting of the minds of the government and the industry as to what would be viable. I believe you have to determine what "viable" is. Viable vis-à-vis the U.S. and the Europeans, or viable vis-à-vis the low-cost producers? It should be what kind of viable Canadian textile industry could evolve, and how it should evolve.

At the moment, there is no meeting of the minds, as I see it. The government representatives believe that the Canadian industry could become viable if it exported; that it could have production runs which would bring unit costs down low enough to be competitive with foreign exporters. The people in the industry with whom I have talked did not seem to think that this was the case, that we could export enough to bring the unit costs down so that they were low enough. Therefore, there seems to be a basic disagreement on this issue. It is impossible to plan forward for the industry if the two groups concerned have such very different ideas about what the future of a successful textile industry is.

The Chairman: We have been expounding on your study, not with any desire to break it down but rather to get explanations, and we do understand it now. We have read it. Is there anything more at this time, before we turn to the practical end of the industry, that you want to add?

Ms. Pestieau: No, I do not think so. I really do not think that I have anything to add to the last few chapters of the study. Thank you very much.

Senator Flynn: Mr. Chairman, I would like to try to summarize the views of the witness. If I understand what you have said, we should concentrate in areas where we can be competitive and reinforce these areas with adequate protection, but we should phase out in areas where we are not competitive and where, with protection, we are really not achieving anything. Is that your view?

Ms. Pestieau: That is my view, broadly speaking. We also need to agree on a definition of "competitive" because that is one of the things that is bogging down the whole question, as I see it, the economists' notion of "competitive". If you are faced with low-cost producers on a long-term basis, I think we will have to produce some other notion of "competitive"—competitive vis-à-vis the U.S. That is a problem we have not dealt with at all in our discussion this morning. We are no longer competitive with the U.S. now that the wage rates in Canada are so high. The industry and government should agree on some definition of "competitive" which is not quite Utopian, but on the basis of that decide which industries they are going

to protect and give them a decent kind of protection and decent compensation to those obliged to phase out.

Senator Flynn: Thank you.

The Chairman: Are there any other questions? All right, thank you very much.

Honourable senators, we have, turning to the practical side of the industry, two representatives of Bruck Mills Limited. We have with us Mr. G. L. Bruck, the Chairman, and Mr. T. Yamaguchi, President of Bruck Mills Limited. Will you please come forward, gentlemen?

Senator Flynn, in the summary of the evidence I thought you were going to add the loss of jobs.

Senator Flynn: It is an ingredient, yes, of course; there is no doubt about that.

The Chairman: Mr. Bruck, are you going to make an opening statement?

Mr. G. L. Bruck, Chairman, Bruck Mills Limited: I will, if I may.

The Chairman: Yes, go ahead.

Mr. Bruck: Honourable senators, I am Gerald Bruck, Chairman of Bruck Mills Limited. My company has some interesting aspects about it, in respect to the current situation and in respect to the history of the industry.

First of all, it was the founder of the textile industry in terms of the silk industry in this country in 1922.

Senator Walker: Where are you located?

Mr. Bruck: Cowansville and Sherbrooke, Quebec, with the head office in Montreal.

Senator Walker: I have heard of it, but not too well.

Mr. Bruck: The silk business became the synthetic business, with the result that today we are the makers of manmade fibres, customers of DuPont, Celanese and others.

Another interesting aspect of our company is that it has always been a consistent employer of labour and a successful company, with a very fine reputation throughout this broad land. Unemployment has been as high as 2,200, and as low as 1,100 today.

The third thing about this company, which is quite different from any other that I might mention, is that although for 20 years I have been pounding the pavement in Ottawa, screaming my head off about the problems which we are discussing today, I eventually sold the family interest to people who were traditionally the heavy inputters of Canada. These very people have come to Canada to become a part of the industry because they themselves could see some light several years ago. They were somewhat impressed by the textile policy as it appeared to be.

I was the president and chief executive officer of this company until the end of 1974. Today my colleague, Mr. Yamaguchi, is the president and chief operating officer, representing two rather powerful commercial entities from Japan; one is the Marubeni Trading Company and the other is the Toyobo Manufacturing Company, who are probably the largest and two of the most successful textile operations in Japan.

A few years ago I believed that size and technical expertise was an extremely important aspect for any company in

this industry. Bruck, which was considered large in terms of our industry but small in comparison to some of the giants, was on the border. I did not consider ourselves secure in terms of size of financial strength. Therefore, in the best interests of this company and the people who depend on it, its employees and others, I considered it necessary to have interested shareholders who are able to supply the necessary financial assistance and who would also be able to add new technology which is always very welcome. For that reason the control of Bruck was passed on to these two companies which I have mentioned.

In the last few years we have had a most difficult time. In the last year our company's employment has dropped down to 1,100, and we have suffered the heaviest financial losses in our otherwise reasonably successful 23-year history. We have lost \$4,800,000 as of last October, and the skies are not clear yet.

That is the background of Bruck Mills, which, if I may immodestly say so, has been somewhat of a household word in textiles in Canada since the year 1922.

Senator Walker: Is it now owned by the Japanese?

Mr. Bruck: It is now controlled by Japanese interests.

Senator Walker: What statement are you trying to make? What is your point? Is it an apology for the fact that you are selling, or what?

Mr. Bruck: It is no apology at all.

Senator Walker: What is your message, then?

Mr. Bruck: My message is simply that the Japanese had considered Bruck Mills an interesting investment, a means by which they could become a part of the Canadian textile industry rather than suppliers to it. They are now fully in the driver's seat so far as Bruck Mills are concerned. Mr. Yamaguchi, as president of the company, will follow me immediately. He will make his own statement in respect of how he finds being part of the Canadian textile industry, in view of the uncertainties of the Canadian market and in view of what the uncertainties are today. In other words, the Japanese are not particularly happy, either, as part of the Canadian textile industry. They are Japanese in nationality only; corporately they are Canadian.

That concludes my statement on that subject, honourable senators.

Senator Macnaughton: Could the witness summarize the reasons for the losses last year, if they are not confidential?

Mr. Bruck: No, that information is not confidential at all. First of all, we have had a poor market for our products, which are manmade fibre fabrics, knitted and woven fabrics. The reason for the poor market is somewhat more to the point. There have been heavy imports both of clothing and of fabrics. We maintained all along that the piecemeal approach of the textile policy is not satisfactory. We need a global restraint, not only on textiles, which is our first point, but also on clothing, which is equally important or even more important.

The Chairman: When you say "global", do you mean all-Canadian?

Mr. Bruck: No, I mean all parts of the world. In other words, to have a restraint against Japan and have the thing wide open with respect to Singapore or Hong Kong is

useless. To have all of the restraints in the world on textiles alone but have clothing come in is almost useless, particularly since we now find that many of our customers who are clothing manufacturers find the going pretty rough themselves and find that they can make a reasonable profit by importing clothing. They are taking the easy way out; they are becoming importers and distributors of clothing.

Those in the textile business, such as ourselves, who are locked in with huge capital investments, have not the luxury of saying, "Well, we will stop manufacturing. We will become importers." It is much easier for the smaller firms in the clothing business to do that.

However, the point is that we had a bad year because our sales dropped and we found that we did not have the markets. The particular field of knitting, in which we were heavily committed, was a catastrophe. Prices and volume went down severely, which affected our profits very badly.

In addition to that, of course, we have had inflation in every aspect but our selling prices. That is not peculiar to our company, but is rather general. In a broad way, sir, I believe that answers your question.

Senator Macnaughton: And wages?

Mr. Bruck: They are sharply higher.

Senator Connolly: Mr. Bruck, when you speak about the need for global restraint, I take it you mean restraint on the export of textiles, no matter where they are made. How would you achieve that? Obviously, it cannot be done by domestic legislation in Canada.

The Chairman: It can be done by quotas.

Mr. Bruck: I believe there is machinery within the department for quotas to be laid down.

Senator Connolly: But that can only bind the Canadian position. That would have nothing to do with the position in other countries. Would it not have to be done by some kind of international organization, at some international meeting at which all of the textile producers would be present?

Mr. Bruck: I do not think so, but I would ask Mr. Armstrong to answer that point.

Mr. J. I. Armstrong, President, Canadian Textiles Institute: Mr. Chairman, the international framework is in place to do exactly what we have been discussing here. The Canadian legislation which provides for doing exactly what we have been discussing is, I believe, the Export and Import Permits Act. There is an international sanction for the global quotas to which we have referred. For example, the United States uses global quotas in the context in which we are describing them, and uses them under the International Textile Arrangement.

Senator Connolly: What is the international agency, or is there one, under which these rules are laid down?

Mr. Armstrong: Yes. The International Textile Arrangement, to which some 50 countries are signatories, sets the framework for operating global quotas. Within that framework the United States and the EEC countries all use global restraints in the context in which we have described them. Canada does not. But the international sanction for doing it is there. We are a signatory of the International Textile Arrangement, along with these other 50 countries.

Senator Connolly: In the establishment of the framework, what, if any, special consideration is given to the developing countries and their participation?

Mr. Armstrong: The international arrangement, senator, was designed on the one hand to provide markets for the textile products from the developing countries in full recognition of the importance that the textile industry plays in those countries.

Senator Connolly: Could I interrupt you for a moment? In other words, this international arrangement cannot be criticized as an area in which the rich are looking after themselves at the expense of developing countries?

Mr. Armstrong: Certainly not. The developing countries all signed this arrangement, and the arrangement is essentially in the interests of the developing countries as well as in the interests of the developed countries.

Senator Connolly: Perhaps you have already done this this morning, but I wonder whether this organization—this textile group—could bring us a rather compact paper on what, in Canada, is specifically required. We may be getting this material piecemeal, you see.

The Chairman: They have been requested by the chairman to prepare such a statement. It will be ready in due course.

Senator Connolly: I think that might help, because we may be tilting at windmills as a result of getting this material piecemeal, here and there, through different portions of evidence.

The Chairman: What you really want is a statement of how the arrangement really works, because there is no question but that the arrangement has been signed by the developing countries and also by the developed countries.

Senator Connolly: I was thinking more about the end of the process, as to what the textile industry might expect by way of a specific recommendation for action in Canada.

The Chairman: That is coming to us.

Senator Hays: Mr. Bruck, I pose the same question to you that I asked of an earlier witness. To have helped you out of your financial dilemma, how much more protection would you have required? You obviously do not export clothes outside of Canada, do you? You manufacture just for the Canadian market, so you require protection. How much more protection would you have required, and in what areas?

Mr. Bruck: Sir, we do not export clothes at all. We are strictly in the piece goods business. It is very hard to put a number on it, but I think the type of protection we need is more of a general protection which would cover both clothing and textiles from low-wage areas in particular. We realize we must be competitive in terms of the western economy. We realize that we cannot sit back and just ask for protection and do nothing ourselves, and we are spending millions on building plants and putting in new equipment, for example; but we are hopelessly outclassed by imports from Singapore, Taiwan, Hong Kong and Korea. I understand there are new sources popping up all the time. So I would say the protection we need is a quantitative protection, vis-à-vis all of these areas, which would leave a reasonable amount of market to the Canadian industry. I

do not think this is a question of tariffs; I think it is a question of quantitative protection.

Senator Hays: You mentioned, or somebody mentioned, this morning that you would probably require 65 per cent of the total Canadian market. Am I right about that?

Mr. Bruck: I think that is a reasonable figure, when you consider that the United States has about 85 per cent of their market.

Senator Hays: Does your company compete with the United States, or are you able to compete with the United States?

Mr. Bruck: We do not sell any fabrics at this moment into the United States. It is conceivable that we might at some time in the future, but we are the recipients of textiles from the United States at the moment. When they get into a heavy inventory situation, the dumping comes very quickly.

Senator Hays: Would this 85 per cent figure you mentioned with regard to the United States be helpful to the Canadian manufacturer? You said that the United States has 85 per cent of the market.

Mr. Bruck: Would it be helpful if we had 85 per cent?

Senator Hays: You are asking for 65, approximately.

Mr. Bruck: We have learned always to be more modest than the Americans!

Senator Beaubien: Mr. Bruck, on a lot of your runs, are you fairly competitive with the prices in the United States, for the same thing?

Mr. Bruck: In some of our runs we are.

Senator Beaubien: In most of them? I do not mean if they are dumping, but ordinarily.

Mr. Bruck: We have to consider, sir, that today our wages are higher than the United States.

Senator Beaubien: So your prices are higher.

Mr. Bruck: Our wage rates are higher, we pay more money; our runs are smaller. In addition, with an expensive Canadian dollar, we need some protection from the United States; but there is a tariff.

Senator Beaubien: How much?

Mr. Bruck: It is around 22 per cent, I believe.

Mr. Armstrong: Mr. Chairman, the tariff varies from product to product, and I undertook to the committee last week to provide for honourable senators a list of the principal items in the tariff, together with the rates, both in Canada and the United States. I would hope to be able to have that in your hands during the next day or two.

Senator Laird: Might I ask Mr. Bruck a question in order to follow up on Senator Beaubien and the other questioning? Since apparently you think the practical method is a quota system, how are you practically going to overcome the problem of trans-shipments?

Mr. Bruck: That is a technical question and I do not know whether I have the technical answer to it. I think it can be overcome. I think certainly more vigilance can be exercised. Perhaps Mr. Armstrong can answer your question.

Mr. Armstrong: The Customs Act provides explicitly for preventing over-shipments, as does the Export and Import Permits Act.

Senator Connolly: Will that information be part of the memo that I spoke about a moment ago, and which you are going to provide to us?

Mr. Armstrong: It can be, sir.

Senator Hays: Did I understand you to say a moment ago that you have the protection of the 22 per cent tariff between the United States and Canada?

Mr. Bruck: It varies, depending on the weight of the fabric. It might go up as high as 25 or 26 per cent, or it might be less.

Senator Hays: So your productivity would be that much less than the United States. Apparently we get our materials more cheaply because we import more from these countries. That is part of your problem.

Mr. Bruck: Most of our supplies and materials are not imported more cheaply.

Senator Hays: Do our offshore imports come in here more cheaply than American goods—that is, goods from China, Singapore, Korea, Hong Kong, and so on?

Mr. Bruck: They do spasmodically. If there is a surplus in the industry in Europe or in Asia, we sometimes start getting bargains. They are usually of short duration, however, and they serve more to upset the market than to stabilize it. I would therefore say that on balance our raw material costs are not less than the United States, but are more than the United States. Certainly our service costs, for such things as fuel, wages, and so forth, are higher, and our runs are shorter.

Senator Hays: Do we compete in productivity of a suit of clothes, or whatever you might produce from raw materials, with any country?

Mr. Bruck: Do you mean, is our clothing industry competitive?

Senator Hays: Yes. Is it competitive with any country—the United States, Great Britain, and the other countries in Europe? Certainly it is not competitive with the eastern rim. You have already told us that.

Mr. Bruck: There are others in this room who could better answer that, but my uneducated guess is that we are reasonably competitive with the other western economies; we are not competitive with eastern economies.

Senator Hays: We are competitive with Europe?

Mr. Bruck: I think so.

Senator Hays: With the U.S.?

Mr. Bruck: I think so.

Senator Hays: So if we had the same laws as they have in Britain or the United States, this would be satisfactory? But we do not.

Mr. Bruck: If we had the same regulations as they have in the United States in clothing and textiles, then I think we would be satisfied.

Senator Hays: If we had exactly the same policy as they have in the United States?

Mr. Bruck: Yes, because that would mean that we would have 85 per cent of the market. It just does not get there by accident.

Senator Hays: So what you are saying is that there is a complete prohibition on certain goods coming into the United States so far as textiles are concerned. In other words, you have a 15 per cent quota in the American market?

Mr. Bruck: I believe that is the figure. They have about 85 per cent of the market, and they have a number of bilateral treaties in effect which we do not have.

Senator Walker: Did you say, Mr. Armstrong, that we have the machinery but that the Canadian government does not invoke it?

Mr. Armstrong: That is correct.

Senator Walker: In other words, we could do it, but we do not. We have the same chance as they have in the United States, but we do not use it.

The Chairman: I think, Senator Walker, that it might be said that we are worshipping the idea of liberalized international trade.

Senator Walker: I have never worshipped anything with the word "liberal" in it! While we were in power we did pretty well.

The Chairman: Let us substitute the word "promote". I think you will buy that.

Senator Macnaughton: Mr. Chairman, is the witness able to fix a percentage on the difference in wages paid to United States workers in similar industries as compared to Canadian workers? I assume wages paid here are higher.

Mr. Bruck: Yes. Of course it varies with the different sectors of the industry in different sectors of the United States, but I think we are 5 or 10 per cent on average higher than they are in the United States.

Senator Laird: Somebody said last week that it was about 25 per cent.

Mr. Armstrong: The official figures, Mr. Chairman, are included in the appendices to our submission, and Mr. Perowne, I think it was, mentioned last Wednesday that in the case of his particular company, as compared to his counterpart in the United States, there was a 25 per cent differential.

The Chairman: Anything else?

Mr. Yamaguchi, do you wish to add something?

Mr. T. Yamaguchi, President, Bruck Mills Limited: Yes, honourable senators. I am T. Yamaguchi, President, Bruck Mills Limited.

Control of Bruck Mills Limited, basically one of the leading textile companies in Canada, was purchased in 1973 by two Japanese companies—Marubeni Corporation, a large trading house, and Toyobo Co. Ltd., one of the most important textile manufacturing companies in Japan. This purchase was based on the philosophy and expectation that a large investment in Canada, together with the advanced technology available, would result in a stronger company and would replace the trade concept of exporting textiles to this country.

The existence of the Canadian textile policy encouraged us to become investors. This company, with considerable financial backup from the major shareholders, has just invested over \$6 million in new buildings, new and more efficient converting equipment, and highly advanced weaving looms which would serve the anticipated growth in demand in the marketplace.

Unfortunately, so far we have been unsuccessful in effecting a "turn around" due largely to the fact that during the past year we have been in the midst of a world-wide depression with the resulting devastating flood of imports into Canada at below-cost prices, and this not only from low-wage areas but also from advanced countries selling at distress prices purely to reduce inventories. This influx of imports has severely damaged the Canadian textile market which previously had been showing some strength. The situation now is that we have sustained heavy losses, and have lost a still further share of the market. During the past two and a half years we have had to reduce our labour force of 1,700 by 600, and I personally feel that Canada must have a global quota not only on textiles but also on clothing. We will, on our part, continue the process of rationalization towards a more specialized type of operation, but we have a very limited population with a variety of tastes, and this very small market is currently importing 60 per cent of its requirements.

The unfavourable climate in the textile industry is accentuated by the fact that many apparel manufacturers are discontinuing or reducing manufacturing, and are becoming importers of apparel. As the domestic apparel industry turns away from domestic suppliers of textiles, it is only a question of time before there will no longer be a primary textile industry in Canada.

As the principal shareholders of Bruck Mills, we are naturally very concerned about this possibility. It is not the view which we had three years ago. We had confidence about the effect of the then existing textile policy.

That is all, thank you.

Senator Hays: What policy has changed in the last three years? You said you purchased in 1973 and that the policy has since changed.

Mr. Bruck: If I may answer that for Mr. Yamaguchi, the policy as put in place in 1973 or 1970 or 1971 looked rather good. We had a very energetic minister at that time who was responsible for it.

Senator Walker: Who was that?

Mr. Bruck: Jean-Luc Pepin. So it appeared that the machinery was there, if it was going to be used, whereby the industry might be able to make some progress.

Senator Connolly: You are talking now about the export restraint policy or the import restraint policy, depending upon the point of view.

Mr. Bruck: Basically, this is really the problem.

Senator Connolly: But that was the policy of 1971-72 that you are now talking about.

Mr. Bruck: It was part of the policy. The policy itself was pretty broad, but actually, as has been previously discussed here, the Clothing and Textile Board was set up and the findings were made, but the implementation was slow and in some cases there was no implementation at all.

It has been one series of discouragements after another, and today we feel pretty flat about the whole thing.

Senator Hays: You just got out in time, did you not?

Mr. Bruck: I would say so.

Senator Beaubien: We have the same powers as the United States to reduce imports and so on, but you say they have used those powers and have 85 per cent of the market and we have not used the powers and have 40 per cent of the market. Is that what you are saying?

Mr. Bruck: That is the way it looks to me, sir.

Senator Hays: Mr. Yamaguchi spoke of worldwide depression being one of the reasons for the dilemma of the textile industry. Do you experience the same difficulties in Japan as in Canada?

Mr. Yamaguchi: Yes, especially last year after the oil shock, generally speaking all countries in the Far East, in textiles especially, suffered heavy losses in the course of the depression.

Senator Hays: Is it as bad in your companies in Japan as it is in Canada?

Mr. Yamaguchi: Yes, sir.

Senator Hays: Is it more difficult in Japan?

Mr. Yamaguchi: More difficult.

Senator Walker: Are the reasons the same for the hard times in Japan? In other words, what is your position? We thought your costs of production were much lower in Japan than here. Are they not?

Mr. Yamaguchi: We also have in Japan increases in wage rates, so we are threatened by imports from adjacent countries, such as Korea, Formosa and others.

Senator Hays: Do you have the same protection for the clothing industry in Japan as we have in Canada by way of government protection and tariff prohibitions?

Mr. Yamaguchi: As I understand it, right now they are working to institute restrictions, particularly in the case of non-apparel goods.

Senator Connolly: To follow up a question posed by Senator Hays, I believe Mr. Bruck may be able to assist this committee a good deal if he can pinpoint an answer. Senator Hays was given an answer to the effect that the policy of 1971 is now changed. Were you here last week, Mr. Bruck, during our hearing?

Mr. Bruck: I was not; I am sorry, sir.

Senator Connolly: We were told at that time that the bilateral and multi-lateral import restraint programs were failing. Is that the area in which the remedy is to be sought?

Mr. Bruck: This is the real weak, sore point of the policy. The government has not energetically, or successfully, shall we say, entered into bilateral restraints which are either large enough or fast enough to suit the times of the industry.

Senator Connolly: We were told last week, for example, that some of these exporting countries allow the restraint

agreements to run out and then the door is open for them to flood in materials. Is that a fact?

Mr. Bruck: There are all sorts of tricks and, quite frankly, we do not really believe that there is the will on the part of the government negotiators to do the job that is necessary. This has been our complaint.

Senator Connolly: Who do you think should carry on the negotiations?

Mr. Bruck: Government negotiators.

Senator Connolly: Does it have to be government?

Mr. Bruck: Well, industry participation would be very useful.

Senator Connolly: That is the point I was about to raise, yes. Is that what you are looking for, more industry participation in the negotiation and in the conclusion of the restraint agreements?

Mr. Bruck: Well, I would say that if we had more confidence in the way things were being handled at the governmental level, we would be quite happy. I do not believe that we will ever see a point in Canada at which the industry will really negotiate; I do not believe it is in the cards; I do not believe it historically.

Senator Connolly: You may not negotiate, but I gather you are looking at more participation?

Mr. Bruck: Consultation, yes, sir.

Senator Connolly: In the events leading up to the agreement and, hopefully, in the results of the negotiations?

Mr. Bruck: We would like to participate in terms of consultation, and we would like to be listened to.

Senator Walker: Do you mean to say that you are never brought in in the case of consultations with other countries?

Mr. Bruck: Not actively. There were times when we had delegations going to Tokyo when negotiations were being carried on in another building. However, latterly there has been less of that, or none of it. I do not believe we are particularly welcome today, although we do have consultations, perhaps, before the negotiators leave, or we may have a one-way conversation, but it is not satisfactory.

The Chairman: I wonder just how you have a one-way conversation. It seems to be a contradiction in terms.

Mr. Bruck: It is not very successful, and what we say is not heard!

Senator Walker: By "one-way", do you mean that the government tells you what it intends to do before the negotiating team goes?

Mr. Bruck: That is right; or we tell them and they do not hear it.

Senator Hays: Like David Walker, I was once a minister and when people attempted to deal with me I always had difficulty in getting them to explain these things properly. I would say: "Well, what the hell do you want—ten per cent, fifteen per cent?" It has been most difficult this morning when asking the witnesses how much they require, whether it be 51 per cent or 85 per cent. When you

negotiate, do you use those terms so that all concerned will understand what you require to protect the industry?

The Chairman: I understood the witness to say that recently they have not been invited.

Senator Hays: Well, if they have not been invited, they should tell us that.

Mr. Bruck: We tell them, for instance, that there is an opening big enough to sail a ship through from Hong Kong or Singapore, and we are informed that nothing can be done about that and they are now dealing with Japan. As long as there are any openings, you know in these days how fast teletypes and computers operate, we are lost and the whole thing must be properly sealed. Substantial transshipment from Hong Kong to Japan must be prevented. This applies also to goods entering from Singapore and other places ex-quota.

The Chairman: Thank you very much.

Honourable senators, we now have Mr. Fyfe and Mr. Young.

Mr. A. J. Fyfe, vice-president and general manager, Wabasso Ltd.: My name is Fyfe. I am Vice-President and General Manager of Wabasso. This company has been in business since 1907. We have about 300 shareholders, and 99 per cent of the shares are owned by Canadians, so I think we can say we are a Canadian company. We employ about 3,000 people in locations in Ontario and Quebec, with sales offices throughout Canada.

I would like to have the committee think about what we have heard about in terms of developing countries and this business of liberalization of trade. The impact seems to be that we have to help the developing countries. I want to bring another element into the picture; that is the state-controlled economies. Here I am talking about Russia, China, Poland, Hungary, because I will be mentioning countries. The goodwill idea of helping a developing country is one thing, but when you start talking about a state-controlled economy that can marshal its forces and set its prices for its own aim, that is another.

Wabasso restructured in 1970. We had to close our total Grand Mère operation and part of our Three Rivers operation. We cut out approximately one-third of our Quebec operations. This amounted to about 37 million yards of narrow fabrics that we abandoned. This was after the announcement of the textile policy.

Senator Connolly: What do you mean by "narrow fabrics"?

Mr. Fyfe: Thirty-eight inch, 40 inch widths, as distinct from a wide fabric. This was subsequent to the announcement of the principles of the textile policy. We had not seen the details, but the principles were out in May 1970. We took this decision at a board meeting on August 26. This means that we have a plant at Grand Mère, currently rented, 212,000 square feet on one floor, that is waiting to be used. That is what it amounted to. We put out of work approximately 775 people in doing this. We went through all the rigmarole of these reclassification committees that you heard about last week. We had very little success in getting these people placed.

Concurrently at that time we decided to set up a denim operation in Three Rivers, so some of the people were located or placed in the denim operation. That was a small number, perhaps 100, or something of that nature.

If you look at the numbers we employed in Quebec in 1967—I am talking only about the Quebec operation—versus what we have there now, we are now employing 800 less. We have already installed a denim operation in Three Rivers which currently is employing about 200 people. So it has been a one-way street there. Part of that is modernization—I will admit that—but we have lost a tremendous amount of business unnecessarily, that we did not have to lose.

Where did we lose it? Print cloths—these are narrow fabrics—that went into nightwear, blouses. We lost it to Hungary, Czechoslovakia, Russia, Poland, Pakistan and India. Flannellettes—these are flannellettes that went into nightwear, and linings for some industrial purposes. We lost it to Poland, Czechoslovakia and India. Broadcloths, poplins and shirtings. We lost that to Japan, China, Czechoslovakia, Hungary, India. Pocketing, that goes into a lot of clothes, we lost to China, Pakistan, India, Russia. Drills and twills, which go mostly into slacks, we lost to Japan, India, Russia, Poland; and ducks, which again primarily go into slacks, we lost to Hong Kong and India.

We lost that to countries which, in my book, were longer established than Canada. I do not think we could call quite a number of them developing countries that on a goodwill basis we should do something for.

As part of the restructuring, and in conformity to the policy, we decided to specialize in three areas. That is what the policy said: "Specialize. Be efficient. Be competitive!" So we did what we thought we knew best, which was to go into sheets and pillow slips. The Wabasso name in sheets has been well known for umpteen years. We went into sales yarn—we have a plant at Shawinigan that is totally in this—which usually ends up for the most part in underwear, or knitted goods of that sort. We went into denim. We already had a plant in Welland operating in denim. As I have said, we decided to place another plant in Three Rivers because this looked like a "comer," and subsequently it proved to be. In 1971, to round out what we call our consumer products—sheets and slips—we bought a towel company, in Dunnville. That was part of our specialization.

I do not intend to recap all the events that took place last week—the lack of ability to plan ahead, the delays of the Textile and Clothing Board, or anything of that nature. I want to speak on two main points. One is orderly markets, and the second is the attitude of government. We have here some graphs. If Mr. Young will put them up, I will offer a few comments. We will start with yarn.

I have not bothered to put in here what were the quota allowances for any of these items. I just want to show you what has happened in the years 1969 through 10 months of 1975 in the areas where we decided to specialize, where we thought we were living up to the textile policy.

Senator Connolly: Mr. Chairman, before the witness moves into those graphs, do you suppose we could have them in the transcript?

The Chairman: We will have to see whether there is any ability to reduce it so that it could be reproduced in *Hansard*.

Senator Connolly: If other witnesses are going to bring things like this, they might be able to bring small photographs for inclusion in *Hansard*.

Mr. Fyfe: Regarding these graphs, I would like the committee to pay particular attention to the year 1974. There

are a series of graphs. Nineteen seventy-four is an important year, because in 1973 and early 1974 there was a world-wide shortage in textiles, and 1974 pretty well reflects what was concluded agreementwise at the end of 1973 and what was booked in 1974.

Looking at the sales yarn graph, we show eight countries, seven of which show highly volatile changes over the period. Sales yarn was the first case heard by the Textile and Clothing Board. They came out with a global quota, in the sense that I think the figure was about 12 million pounds split up over 13 different countries. I say "global" as distinct from "comprehensive", because "comprehensive" includes products. We are talking only about sales yarn. At the present time all of that quota has been removed. There is no protection whatsoever, although they are monitoring imports.

Senator Connolly: Were there at one time bilateral or multilateral agreements covering those?

Mr. Fyfe: Yes, for 13 countries.

Senator Connolly: They have been allowed to lapse?

Mr. Fyfe: Yes, they have been allowed to lapse. That takes care of sales yarn.

Senator Connolly: Who could have prevented the lapse?

Mr. Fyfe: We as an industry said, "Don't release these restraints!" They say it is not necessary to maintain them, but we say the threat is still there. They say, "It is not. Look at the import figures," and they are looking at 1973-74.

Senator Connolly: When were they allowed to lapse?

Mr. Fyfe: I am guessing now, but I would venture around 1972 or 1973—somewhere in that area. These countries which found Canada to be a convenient dumping ground, found a better market elsewhere in 1974. Sales yarn is a good example. We know for a fact that a good many of the countries that were exporting to Canada found a better market in Western Europe.

Senator Connolly: I am not sure I follow you. From what I can gather, these graphs show that 1974 was not the year of the smallest reduction of imports, but probably it was the second smallest. What do you conclude from that?

Mr. Fyfe: I want to draw a conclusion from all of the graphs. The point I am trying to make at this point is the irregularity of supply. We are told by the Government of Canada that the user in Canada, the consumer in Canada, is entitled to low-cost imports. We agree, to a reasonable level.

Senator Connolly: I do not know that it is correct to say "low-cost imports." I think the policy probably should be something favouring reasonably priced consumer goods. I think that should be the optimum. I think it is the industry's optimum concern to provide consumer goods at the best possible price.

The Chairman: I understood the witness to be talking about European exporters who found a more favourable market in Europe; that is, the developed countries. Is that right?

Mr. Fyfe: Yes, they found a better market in Europe.

The Chairman: As a result, they did not export to Canada.

Mr. Fyfe: That is right.

The Chairman: Who moved in to take their place?

Mr. Fyfe: I do not think anyone moved in. We took an awful lot of flak from the government because we were not able to meet the demands.

Senator Hays: Did the Canadian industry not have profitable years when the European exporters found a better market elsewhere?

Mr. Fyfe: When that happened, we were busy, and it was great.

Senator Hays: Were they profitable years?

Mr. Fyfe: For the Canadian industry, yes.

Senator Hays: And as the market in Canada improved for exports, they again started looking for a market here?

Mr. Fyfe: At the present time, restricting it to yarn sales, it is not a problem. I do not know what the situation will be next year, but at the present time, speaking generally, it is not a problem.

I would ask members of the committee to observe the irregularity of the supply in the five or six-year span represented on the graphs.

Senator Cook: What is the economic explanation for these irregularities?

Mr. Fyfe: Part of the explanation, going back to the earlier years, is that there were quotas, and part of it is that they found a better market elsewhere.

The Chairman: Finding a better market elsewhere and having a quota produces the same result.

Mr. Fyfe: That is right, Mr. Chairman, but we cannot depend on it.

The Chairman: No, but who do you expect will guarantee that situation and the continuance of it?

Mr. Fyfe: This gets back to the point of what reasonable share of the market we should plan for.

The Chairman: Yes, but you did not have competition in the domestic market in that year from your usual sources, unless the developing countries moved in and took over the market.

Mr. Fyfe: The United States, in recent years, has supplied a good share of yarn.

Senator Connolly: Mr. Fyfe, I may be very obtuse this morning, but in looking at the second-last projection for each of the countries represented on the graph, that shows a relatively modest amount of imports into Canada, whereas for two years earlier the graph shows very considerable quantities of imports into Canada. If the imports were restricted in 1974, presumably the gap was filled by either domestic production or imports from elsewhere, and the chairman, in asking you that question, seemed to imply that the gap might have been filled by the developing countries. You say that is not so.

Mr. Fyfe: Partly. First of all, there were no restrictions in 1974.

Senator Connolly: That being so, and the imports from the countries listed on the graph had fallen off, very drastically in some cases, then was the gap just not filled?

Mr. Fyfe: The gap was filled by ourselves, plus the United States, primarily. Of those countries, the only one with any consistency is Colombia; the rest are opportunistic. In our particular case, we went from a five-day operation to a seven-day operation in order to fill the gap.

Senator Hays: Did you increase your prices?

Mr. Fyfe: We increased our prices, yes, in line with the rising cost of cotton. Cotton went through the roof, up to 91 cents per pound, and our prices had to reflect that.

Senator Connolly: What percentage of the gap did the Americans fill?

Mr. Fyfe: I could not give you that offhand.

Senator Connolly: In ball park terms, would it have been on a 50-50 basis?

Mr. Fyfe: No, I do not think so. I think our domestic industry picked up most of it.

Senator Hays: Is the United States the big supplier of cotton for the Canadian industry?

Mr. Fyfe: We buy it worldwide.

Senator Hays: But what country supplies most of the cotton for Canada?

Mr. Fyfe: I do not think I can name any one country. The United States is a big supplier, as is Mexico, and, at times, Russia. We also get large quantities from South America.

By and large, the American industry has to buy American cotton. The extent to which that cotton price is maintained, the American manufacturing firms have to pay it. Canadian firms, on the other hand, can shop the world over, so there is a possibility of making a saving on cotton. That is an observation in relation to subsequent discussion this morning in terms of U.S. versus Canadian competition.

The Chairman: It appears to me that there is not much factual value in trying to relate anything to the situation in 1974, because we did not control the European market and it became a good market. We were not responsible for it becoming a good market. Those who would ordinarily have sold in Canada sold in Europe.

What conclusion do you draw from that? There is nothing we can do to make the European market a favourable market because of high prices. That would improve our position in Canada, but we cannot count on it.

Senator Connolly: Perhaps that is the point, Mr. Chairman. As a result of market forces which put the goods into Europe rather than into Canada, Canadian production picked up. However, as you said, this cannot be depended upon.

The Chairman: So we cannot draw any conclusion from that.

Senator Connolly: Market forces alone are not going to be any security for the industry.

Mr. Fyfe: I want to stress the fact that in looking at the countries represented on this graph, you have state control versus so-called free economies.

Senator Connolly: This is a new injection. You are talking about state control.

Mr. Fyfe: That is right, and I want to emphasize that. Looking at these graphs, those countries with state-controlled economies can set prices at will and for whatever reason.

Senator Connolly: Are you saying that all those countries have state-controlled economies?

Mr. Fyfe: No, I am not saying they are all state-controlled economies. We selected countries which at some point during the period 1969 to 1975 represented 10 per cent or more of the imports into Canada. All the countries are not here. If we had plotted the States, that would be even bigger in many cases on what I am going to show you. I am just trying to make two points here. There is the irregularity of supply, because the argument is made that the user and the consumer are entitled to this from the short term point of view. There is also the fact that a lot of our trading arrangements are with state-controlled countries that can wreck us. If China geared up they could swamp us. We will deal with that later.

Senator Hays: You just mentioned China. If you were negotiating at GATT or negotiating a bilateral agreement, how would you handle it if you were the government? I do not know what the trade is today between Canada and the United States. I am just guessing but I suppose we are selling them 80 per cent more than we are buying; it is a ratio of 80:20. In competing in the world market, the only things they have to sell us are the things you are talking about, textiles. We sell to most of the countries you mentioned, right down the line, more than we buy. As a government man, what arguments would you use if you were negotiating a system on textiles?

Mr. Fyfe: First of all, I would have to go there with enough spine to know that there is a limit. I would point out that neither Russia nor China is a signatory to this International Textile Agreement.

The Chairman: It seems to me the only way you would deal with it would be by subsidy.

Senator Hays: Maybe that is the answer. You mean subsidize our industry here? I have been in on some of these negotiations. I was at Washington. The minute you get off the plane there these people are hounding you, asking, "When are you going to buy some stuff from us? We are taking your wheat and your barley. We are buying \$200 million or \$300 million and you are only buying \$5 million from us." I think that was the figure at that time between China and Canada. These are very valid arguments to these people. It is very important to Canada to have these new dollars, but down the road this is the negotiator's problem. I think perhaps you can help us. How do you deal with this situation?

The Chairman: I think we have the point on that.

Mr. Fyfe: Can I comment on that?

The Chairman: Yes, but we are pushing along.

Mr. Fyfe: I will be brief. I would respectfully submit that all these countries that say, "We are buying this and that from you" are going to buy it anyway in the world market. They are not doing us a favour; they are shopping around, and if we happen to have the wheat they will buy it from us. If next year Russia happens to have the wheat and

offers a better price, they will get the sale. They are not doing us any favour; it is a straight business deal.

Senator Connolly: I do not think Canada negotiates that way. Perhaps we had better go back one step. I put it to you that the way you start to tackle this problem, which Senator Hays has very clearly put before us, is this. Most of the countries of the world, developing and developed, have agreed to the textile quota system. They may not live up to it, they may try to use tricks to avoid it, but I think you must start from that and, within that framework, deal with your industry.

The other problems, the ones about which Senator Hays spoke, the huge amounts of other purchases that Americans and other countries are making here, would fit within that policy of import restraints in respect of textiles. I do not think we should be going too far afield from that. I do not think we should sit back and say, "Well, you have to have our stuff anyway, so, we are not going to negotiate." I do not think the negotiations produce anything.

Senator Hays: You could not get married on that basis.

Mr. Fyfe: The key issue was to get other developed countries to take a bigger share than Canada is. That is the issue.

The Chairman: We have the point.

Mr. Fyfe: I will try to speed this up because I know time is flying.

I am now talking about significant changes of five countries. When the Textile and Clothing Board held a review, they recommended specific restraints against China, Poland, Czechoslovakia and India.

Senator Connolly: May I stop you there? I apologize for the interruption. You are giving us good information but we have to understand it if we are going to act upon it.

You say the Textile and Clothing Board advocated restraints in respect of China and some other countries. How do they propose that those restraints would be imposed—through a bilateral agreement?

Mr. Fyfe: Yes.

The Chairman: A bilateral agreement, or do you mean a voluntary agreement?

Mr. Fyfe: Voluntary restraints, negotiated restraints.

The Chairman: Yes.

Mr. Fyfe: The one with China was seriously overshipped, I might add.

As a sidelight on towels, we exported a fair amount to Australia. At one point in time we had 18 per cent of our cloth devoted to export business. Australia clamped down overnight and shut us out to protect their own industry.

Senator Connolly: Could you say that again? I didn't hear you.

Mr. Fyfe: A sidelight, talking about towels, and this is the other side of the coin, we exported to Australia. At one point we had 18 per cent of our production exported, and Australia clamped quotas or limits on the export of towels and shut us out completely.

Senator Connolly: Did we have a bilateral agreement with them?

Mr. Fyfe: No, other than the tariff arrangement, it was a free trade matter.

Senator Connolly: Are they a party to the international arrangement regarding imports?

Mr. Fyfe: There was no agreement between us. They acted quickly in the interest of their own industry. I am just pointing out that there are others that can do it.

If we move on to sheets and pillow cases, here again I draw the conclusion on sheets that there is a wide range of activity. In pillow cases, there is also a wide range of activity.

The board, in this particular case, found that a threat does exist. I must admit the issue was clouded seriously by the serious fire we had in March 1973. We were supplying approximately one-third of the Canadian market and we were effectively out of business for almost a year and a half, so in this area the issue was very clouded.

The one point that the board did make in their report was that in the event of a sharp increase, the ITA provides a mechanism for prompt implementation of special measures of protection. I think we doubt that.

I am now talking about the areas in which we specialize. The other one I have here is denim. This is a different story.

I am only showing four countries here. The biggest shipper into Canada at the moment is the United States, apart from us.

Senator Connolly: I beg your pardon?

Mr. Fyfe: The United States is the biggest shipper into Canada. That is not shown here. I am only talking about these so-called low-cost or state-controlled countries.

We have two mills now on indigo denim. We converted one to the popular indigo and we built one, as I mentioned, at Three Rivers. There is at the present time a worldwide shortage. It has just taken off. There is also a shortage of indigo dye. In an attempt to help the market out, we made inquiries as to whether we could buy comparable quality denim which was for sale in the Canadian market. We found that we could not buy it at a price we could sell at here; in other words, selling at your own price without taking a loss. We abandoned that. At the present time we are in a quandary on denim.

We are investigating the purchase of additional looms to increase the denim capacity here. Because of the unrestricted imports of denim garments that are not under any kind of arrangement, this makes it a very difficult decision.

Senator Connolly: Imports from what source?

Mr. Fyfe: Mostly from low-cost sources—Brazil, Hong Kong.

Senator Hays: Where does the raw material come from for denim?

Mr. Fyfe: It is raw cotton.

Senator Hays: Where would the majority of that be imported from this year? From the United States?

Mr. Fyfe: The Canadian market. We supply ourselves. It depends on what figures you use. It depends on whether you are talking poundage or yards. But we supply better

than 50 per cent of the market in either case, poundage or yards.

Senator Hays: But where do you import the raw cotton from?

Mr. Fyfe: The United States, Mexico, South America.

Senator Hays: Is the majority from the United States or from Mexico?

Mr. Fyfe: It depends each year where we go.

Senator Hays: If Mexico grows its own cotton, would that not be a pretty difficult area to compete with?

Mr. Fyfe: Well, they are inclined to want to produce more of their own garments in Mexico and export those garments, I will admit that; but we do get cotton from Mexico.

Just referring to the graphs generally, I draw the following conclusions: The government has said that we should agree, as a trade policy, to help the "developing countries". My contention is, and it is displayed by these graphs, that they use the allowances, the quotas—call them what you will—only when it suits them. If they find something better somewhere else they go there. If there is nothing better anywhere else, then they come right into Canada. In 1974 they found a market elsewhere. I conclude that Canada is a convenient dumping ground when things are not too bright elsewhere.

From another point of view, they show the lack of stability of supply in respect of both user and consumer, and as witnessed by textile clothing reports in three of the four areas, they show that countries en bloc do have the power to disrupt our economy to a serious degree. We convinced the board of that in three cases.

I make the observation that the government at the present time more or less controls wheat, eggs, oil and perhaps some other products, through marketing boards. These products are not subject to violent surges of international competition as textiles are; they are not allowed to be wrecked by disruptive imports. As a matter of fact, the paper this morning said we are selling eggs somewhere at a loss. We are not taking exception to these procedures, because we feel they are in the best interests of the economy. That is fine. All we say is that with reference to textiles we do not ask for unreasonable barriers but we do ask that the low-cost imports be kept to such numbers as will not disrupt the market.

I think the figures show right now that the penetration of our market has always been increasing. That is not necessarily mandatory. An orderly market would allow for planning in Canada. We could look ahead a few years, which we cannot do now. The \$32 million which we have spent in the last ten years has been on what I term defensive spending. Very little of it has been on new capacity. What we need to know is what the situation will be for several years ahead. We do not want just a year-by-year review on a solitary item with nothing happening over here on a similar product made out of that fabric.

Senator Connolly: What instrument do you think could produce that planning?

Mr. Fyfe: The power is in the international textile arrangement right now, if our government officials elected to use it. It is there. Nothing new needs to be introduced. It is there, and we have told them that.

I now move on to the attitude of the government, though I might come back to that question.

The Chairman: This does not need to be laboured too much, but the point is that the authority to establish quotas is there in the international arrangement. Canada could, on its own, establish a quota, whether the developing countries wanted to accept it or not.

Mr. Fyfe: That is right.

The Chairman: And whether the developed countries wanted to accept it or not, they have all agreed to that working arrangement.

Mr. Fyfe: That is right.

The Chairman: All right. So there is nothing that needs to be supplemented there. That is the factual and the legal situation, and if the Canadian government acts in that way, you have your answer. You might not be satisfied with the amount of the quota that the government sets, of course. In that case, you would have to start your pressure, and I take it we do not have to define that word.

Now, what more is there to say on that point?

Mr. Fyfe: I just wanted to review some items here, Mr. Chairman. I make the point that many developed countries have taken a stronger stand against disruptive imports than we have. They seem to feel that the textile industry in a developed country is a sufficiently powerful economic endeavour, making a sufficiently worthwhile contribution to the economy, to continue it.

The Chairman: Just a minute, now. What the other developed countries think is not as important as what our country thinks. Is that not correct?

Mr. Fyfe: I am just trying a comparison here. Why are we different from the United States, or the EEC, or Japan? Why are we more liberal than they are?

The Chairman: It is a good question, and it is certainly a question, I think, that we would have to develop in our report.

Mr. Fyfe: I hope so, senator.

Senator Macnaughton: It is called economy of effort by the government.

Mr. Fyfe: I would like to make this further point. I was here in Ottawa two weeks ago at a meeting. We had been told earlier that there would be no restraints unless we took the case to the textile and clothing board. Canada is the only country that has a textile and clothing board, and we have established that taking a case to it is a lengthy procedure. Other governments act without such a board, or they have already foreseen the portion of the market that they are going to allow to import, either through a global or a comprehensive bilateral agreement with different countries. This idea of having to take the case to the board presupposes that Canadian companies have the power, and the association, and sufficient knowledge of the facts, to make a case.

Senator Connolly: You say the onus is on the industry to prove its case before the board.

Mr. Fyfe: That is right.

The Chairman: There is nothing to prevent your going to the board.

Mr. Fyfe: All I am saying is, in view of the way the primary and the clothing industry is conducted in Canada, the apparel manufacturers have a heck of a time getting together to reach a consensus, because they are so fragmented; and yet they have to go to the board. I am making the point that we want the government, on the basis of what they know from their facts and figures, to take the initiative. This is what I am after. The C. D. Howe Research Institute study points out that there is an adversary relationship between the government and industry. That has been said, and it does not have to be talked about any further. As I have just stated, I believe that we need government initiative in order to look after the interests of Canadian manufacturers, whether it is in the area of textiles, footwear, or any other segment of the industry, because I believe, personally, that the health of this country is based on its secondary manufacturing industry. If we do not have that, we are slowly going to get to the point where we will not have any more resources to export, and then what?

Senator Connolly: Would you think, Mr. Fyfe, that it would be helpful if some kind of agency were established, based on federal legislation, participating in which there would be representatives of government and of the industry, and the purpose of which would be to survey this industry and arrange for bilateral and multilateral import restriction agreements with any and every country that would accept them, and, although this may be oversimplifying it, to have, as the sanction for the efficient operation of that agency, the right to invoke controls on imports into Canada when required? Would a concept of that kind meet the requirements of the Canadian textile industry? I am not trying to put you on the spot.

Mr. Fyfe: Well, I do not want to talk about how governments should do something.

Senator Connolly: That is no answer. I am not trying to put you on the spot by asking, "Would you accept this?" and then you might feel that you were bound in some way. But down the road is there an agency of that kind, or something that the industry is thinking about, that might bring some relief to your problems?

Mr. Fyfe: We do need an agency, or whatever, to call on, which has the power to act quickly and which is up to date itself on the figures as to what is going on in the world.

The Chairman: I think, Senator Connolly, we talked about this last week, and I think the view was expressed that if there was a finding that the domestic industry was endangered, then that is a basic finding to start action by the government or by the minister, and that may be a good starting point. I mean, how could you ask the government to establish quotas, or how could you ask the minister to apply a surtax, or how could you ask him for a subsidy, unless you could establish that it was in the best interests of Canada because our own industry was endangered, with the consequence that the economy of the country is endangered because of the number of people who could be affected by loss of jobs? So the basic point which causes you to move is the fact that the industry is in danger.

Senator Hays: That is quite true. This is a job-industry. In the textile industry most of the basic materials, except for the petroleum element, have to be imported. I think this is what they have to prove, because they said, "We employ 10 per cent of the people." It has been suggested that it could never be a viable industry compared to the

rest of the world, but I think it is pretty important from the job point of view.

Senator Connolly: Last week we had a great deal of talk about imports and the Clothing and Textile Board, and I came to the conclusion that this was a board with which you registered complaints and sought remedies for problems that had arisen as a result of imports, but it was always something after the event—that it was a board of last resort and it really amounted to being a matter of closing the door after the horse was stolen.

The Chairman: It is a fact-finding board, and the fact it has to find is one of danger to Canadian industry.

Mr. Fyfe: I would add to that, senator, that our impression up to now has been that officials here grudgingly agreed to negotiate quotas but they are not willingly going out there and doing it.

I know time is short, but on page 96 of the House Report two questions are raised, one as follows:

If the Americans (the Europeans, the Japanese) foster textile industries that are not internationally viable, why should we abandon our people to the tide of low-cost competition?

In my opinion, this presumes that only state-controlled and low-cost sources are the viable industries for the future; the United States, the United Kingdom and this country will not be viable. That I find hard to take.

The Chairman: I do not think you can assume that we will have state control.

Senator Cook: "More" state control.

The Chairman: I accept the correction!

Mr. Fyfe: The other point on that page is the reference to consumers. It raises the question whether they really benefit from these low-cost imports to any degree. I say the question should be viewed in relation to the cost of a disrupted economy borne by them. Our charts show opportunistic selling, not a steady source of supply. In my opinion, gentlemen, this boils down to the standard of living of the low-cost countries vis-à-vis our standard of living. We must make up our minds as to whether we wish our standard of living, as we have it in this country, to continue; and, if so, we must support it.

The Chairman: We must find the means to work together if we can.

Mr. Fyfe: No. My last statement says, "Where there's a will, there's a way," and it is provided in the international agreements.

The Chairman: A variation of that is, "Where there's a will there's a lawyer!"

Senator Hays: Another variation is with respect to farmers, that they are held over the abyss of hell with suspicion and contempt but are never allowed to drop in.

Mr. Fyfe: This outdoor vest comes from Red China. This is from a subsidiary company of ours. We brought 5,000 of these to try them out, because we are worried stiff about Red China. These are down-filled vests. We have a business which makes this outdoor clothing, much of which we export to the United States, by the way. We also make sleeping bags. If these products are allowed to enter this country, we will see the better part of 400 people in

Toronto and Thunder Bay involved. This product enters this country at half the cost of our equivalent vest. We manufactured a promotional vest and at its price at the retail level in Canada there is a difference of 75 cents, the one from Red China being a lesser price than the Canadian vest. There is no doubt that this is a much better vest, but this is what does enter the country.

Senator Hays: What did the Chinese vest cost the importer?

Mr. Fyfe: I will give you the figures, because we are the importer and we just wanted to smell this market out and see where we are heading.

Senator Connolly: You could have made as good a vest as the Chinese?

Mr. Fyfe: We do; that vest came in, landed Toronto, \$6.20. Our equivalent vest would be landed Toronto at \$14. This vest is currently selling by us—I am giving away figures here—at \$9, whereas we would sell our own product at \$18.50. We are making \$3 on this vest, just to bring it in and out the door, but taking the risk of stocking it. On our own vest we make \$4.50, it being a roughly equivalent product, selling at \$29.95 in the store. This one in the fall will sell for \$17.

Senator Macnaughton: And that is a better product?

Mr. Fyfe: I do not say it is better than our regular vests; it is better than the promotional products.

Senator Connolly: That is what I said—you could have made as good a vest as the Chinese.

Mr. Fyfe: We do, but not at these prices. We sell at \$30, and their product is sold at \$17. This cheaper vest costs us \$8.75 to make, and we sell at \$17.95 to match the Chinese, a difference of 95 cents. However, this is what we are afraid of, and I bring this as an example of the clothing that is entering this country.

The Chairman: Is that the end of your presentation?

Mr. Fyfe: Yes, sir.

The Chairman: Honourable senators, we have approached or, rather, over-approached our adjournment time and still have witnesses in attendance who expected to be heard today. However, not only have we run out of time, but I canvassed the situation for this afternoon and, to use a well-known expression, there is "no room for us in the inn" this afternoon. This room has been taken over by another committee and our regular committee room has been booked for this afternoon, so we have no place in which to meet.

I know Mr. Tinker, who was going to be called next, may not be available next week. I was going to suggest that if he wished to put his statement, in summary form, in writing, we would present it to the meeting. The chairman gives you that undertaking, Mr. Tinker.

As to the other witnesses—there are three or four of them—we shall hear them first next week, so there is no chance that they will be missed out. We will hear them before we hear anyone else.

I am sorry that we run into these difficulties. There is no way we can avoid it. We could do what they do in the Supreme Court of the United States, which is to set a time limit for the presentation of material, but that is a little too arbitrary and I do not think we would get as much in the way of freedom of expression and thinking by doing that.

While the chairman may seem to be probing in the interests of getting information, and in shortening the presentation, it is not with the intention of keeping the witnesses from telling us everything they want to tell us that is relevant.

Mr. Fyfe: Mr. Chairman, I do not think anyone of us has felt that way. We have been very pleased with the way we have been treated.

Mr. A. R. Tinker, Chairman of the Board and Chief Executive Officer, Cleyn & Tinker Ltd., and Paton Manufacturing Co. Ltd.: Mr. Chairman, I will submit this in writing. It is unfortunate, because our particular industry is entirely different from the cotton and synthetics industry. We are in the wool industry. Ours is a totally different concept from those that have gone before, but I can give you this in writing.

Senator Macnaughton: Mr. Chairman, could he present it next week?

Senator Connolly: No, he cannot; but perhaps he could at a later time.

Mr. Tinker: I could at a later time. I shall be out of the country for the next two weeks.

The Chairman: Mr. Tinker, if you could give it to us in writing, it will be presented here. If there are any questions that develop, we will write to you about them. I think Mr. Armstrong will be here, and certainly he will note everything that goes on in relation to your statement. He will understand what it is that we want. We may not want anything, because you may develop points very clearly. I am sorry, but that is the best we can do. The meeting is adjourned.

The committee adjourned.



FIRST SESSION—THIRTIETH PARLIAMENT
1974-75-76

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
**BANKING, TRADE AND
COMMERCE**

The Honourable **SALTER A. HAYDEN**, *Chairman*

Issue No. 77

WEDNESDAY, FEBRUARY 25, 1976

Third Proceedings on:
"Canadian Textile Problems"

(Witnesses: See Minutes of Proceedings)



THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Barrow	Hays
Beaubien	Laird
Buckwold	Lang
Connolly	Macnaughton
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
Everett	Smith
*Flynn	(Colchester)
Haig	Sullivan
Hayden	Walker—(18)

**Ex officio* members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, May 27, 1975:

"Pursuant to the Order of the Day, the Senate resumed the debate on the inquiry of the Honourable Senator Desruisseaux calling the attention of the Senate to Canadian textile problems.

After debate,

The Honourable Senator Asselin, P.C., moved, seconded by the Honourable Senator Choquette, that the subject-matter of the inquiry be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, February 25, 1976
(99)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade & Commerce met this day at 9:30 a.m.

SUBJECT: "Canadian Textile Problems"

Present: The Honourable Senators Hayden, (Chairman), Barrow, Beaubien, Connolly, (Ottawa West), Cook, Desruisseaux, Hays, Laird, Macnaughton, Smith (Colchester) and Walker. (11)

Present, not of the Committee: The Honourable Senator Lafond. (1)

The Committee then proceeded to the examination of the above subject during which the following witnesses appeared.

WITNESSES:

The Canadian Textiles Institute:

Mr. J. I. Armstrong, President, Canadian Textiles Institute;
Mr. F. P. Brady, Vice President, General Counsel, Dominion Textile Ltd.; and
Mr. G. P. MacPherson, Director, Government Relations, Celanese Canada Ltd.

Canadian Shirt Manufacturers' Association:

Mr. John M. Coyne, Q.C., Counsel, of Herridge, Tolmie and Company;
Mr. William Wilkinson, President, C.S.M.A., & General Merchandising Manager of Cluett, Peabody & Co.;
Mr. William Cline, Vice President, C.S.M.A. & President, John Forsyth Co. Ltd.; and
Mr. Max Kape, Past President, C.S.M.A., & President, Style Guild Inc.

The following witnesses were also present:

Mr. T. R. Bell, President & Chief operating Officer, Dominion Textile Ltd.;
Mr. P.E. Bieler, Chairman & Chief Executive Officer, Zephyr Textiles Ltd.;
Mr. R. A. Chevrier, Vice President & General Manager, Fibres Division, Celanese Canada Limited;
Mr. A. J. Fyfe, Vice President & General Manager, Wabasso Limited;
Mr. A. B. Grossman, President, Burlington Industries (Canada) Limited;
Mr. F. S. Kenny, Director, Government Relations, DuPont of Canada Ltd.;

Mr. H. Gruber, President, Canadian Worsted Mfg. Co. Ltd.;
Mr. N. Longlade, President, Cleyn & Tinker Limited;
Mr. E. M. Paul, President, Leach Textiles Ltd. and Vice President, Cleyn & Tinker Limited;
Mr. E. W. Young, Executive Assistant to the General Manager, Wabasso Ltd.;
Mr. Marc Beland, Director, C.S.M.A., & Empire Shirt, Louiseville, Que.;
Mr. Irvin Wismer, President, Cluett, Peabody & Co.;
Mr. Jim Walker, C. F. Hathaway Co. Ltd.;
Mr. Jean-Marc Lafontaine, President, Lachemise J.H.L., Edmunston, N.B.;
Mr. Harry Stern, Vice President, Almo-Dante Inc., Montreal, Que.; and
Mr. Jacques Barsalo, Comptroller, Style Guild Inc., Montreal Que.

At 12:30 p.m., the Committee adjourned until later this day.

3:00 p.m.
(100)

At 3:00 p.m. the Committee resumed to further consider the above subject.

Present: The Honourable Senators Hayden, (Chairman), Barrow, Beaubien, Connolly, (Ottawa West), Cook, Desruisseaux, Hays, Macnaughton and Walker. (9)

Present, not of the Committee: The Honourable Senators Bell and Lafond. (2)

WITNESSES:

Apparel Manufacturers Council of Canada:

Mr. L. Peters, Montreal Dress & Sportswear Manufacturers Guild, Montreal;
Mr. F. Bryan, Executive-Director, Apparel Manufacturers Council of Canada, Toronto;
Mr. E. Enkin, Cambridge Clothes & Copplay, Noyes & Randall Ltd., Hamilton; and
Mr. D. Cohen, The Freedman Co. Ltd., Montreal.

The following witnesses were also present:

Mr. L. Rubin, President, Apparel Manufacturers Council of Canada & President, Rubin Bros. Clothiers Ltd., Montreal & Victoriaville, Que.;
Mr. B. E. Elkin, J. Elkin Co. Ltd., Montreal;
Mr. P. Silverstone, Merit Clothing Co. Ltd., Montreal;

Mr. G. D. LaViolette, Mens' Clothing Manufacturers
Association of Quebec, Montreal;
Mr. P. Mancini, Canadian Clothiers Ltd. & Dylex
Diversified, Toronto;
Mr. C. Kuzik, Superb Sportswear Ltd., Toronto;
Mr. B. Wilcox, GWG (*Eastern*) Ltd., Brantford;
Mr. P. Covit, Match Mates Inc., Montreal;
Mr. B. Rogers, Childrens' Apparel Manufacturers
Assoc. of Canada, Montreal;
Mr. B. Schwam, Louben Sportswear Inc., Montreal;

Mr. S. Rose, Lana-Lee Fashions Inc., Montreal;
Mr. N. Wexelman, Press Togs Inc., Montreal; and
Mr. S. Kivenko, Jack Spratt Mfg. Co. Ltd., Montreal.

At 4:30 p.m. the Committee adjourned to the call of the
Chairman.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, February 25, 1976

The Standing Senate Committee on Banking, Trade and Commerce met this day at 9.30 a.m. to give consideration to Canadian textile problems

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, this morning we resume our hearing on the study of the textile industry. I hope we will be able to conclude what evidence we have scheduled for today during the morning rather than find at the end of the allotted time that we still have some witnesses to hear.

As you will recall, on the first day of the hearings Mr. Armstrong undertook to prepare answers to certain questions. He has those answers with him this morning, and I will ask him to proceed first.

Mr. J. I. Armstrong, President, Canadian Textiles Institute: Thank you, Mr. Chairman. Honourable senators, during the proceedings of the committee on February 11 I undertook to provide answers to certain questions raised by members of the committee. Senator Cook asked me to provide a memorandum for the committee showing the rates of duty exigible on imports of the more important and significant textile items into Canada, and he noted that it would be helpful if I were able to compare those Canadian rates of duty with the ones effective in the United States. I now table a memorandum showing these comparative rates of duty.

Of the hundreds of textile and clothing tariff items in the tariff schedules of both Canada and the United States, we selected the significant, typical and important items, and I have the comparative rates.

In overall terms, this shows the trade weighted average rate for all textiles and clothing. For Canada the rate is 23.6 per cent. For the United States the rate is 25.7 per cent.

I have given copies of this memorandum to Mr. Jackson for distribution to members of the committee, and I would ask that this be included in the record, if that is possible.

CUSTOMS TARIFF—CANADA AND UNITED STATES SIGNIFICANT TEXTILE AND CLOTHING ITEMS

	Canada (MFN)	U.S.A.
Yarns		
Cotton	17½%	various (1)
Man-made	10% & 10cts per lb.	25%
Wool	10% & 10cts per lb.	15% & 30cts per lb.
Fabrics		
Cotton	17½% or 20%	various (2)
Man-made	22½% & 13cts per lb.	22½% & 13cts per lb.
Wool	max. \$1.10 per lb. (3)	38% & 37.5cts lb.
Knitted	27½%	various (4)
Clothing		
Cotton	22½%	various (5)
Man-made	25%	various (6)
Wool	25%	42½%
Knitted	27½%	various (7)

(1) from 3.4% to 13% and 3.6cts per lb. depending upon yarn count.

(2) from 5.9% to 26.3% depending upon yarn count.

(3) 16½% on a typical 12oz, \$5.00 fabric

(4) from 10% to 32% and 37.5cts per lb. depending upon fibre and end-use.

(5) from 8% to 35% depending upon end-use.

(6) from 27½% and 25cts per lb. to 42½% depending upon end-use.

(7) from 10% to 32% and 37½cts per lb. depending upon fibre and end-use.

Note: Trade weighted rate for all textiles and clothing. Canada—23.6% U.S.A.—25.7% (Source—GATT)

The Chairman: Are there any questions on what Mr. Armstrong has said with respect to the trade weighted rate for all textiles and clothing?

Senator Cook: After we have a chance to look at it, no doubt Mr. Armstrong will be glad to answer further questions.

The Chairman: Well, copies are being distributed at the moment.

Mr. Armstrong: Mr. Chairman, during the proceedings last Wednesday the Honourable Senator Connolly asked me to include with the memorandum I have just tabled a statement of the provisions of the Customs Act and of the Export and Import Permits Act which provide the legislative basis or authority for preventing trans-shipments. I

should now like to read into the record, by way of reply to Senator Connolly, the provisions of section 22, subsection (2.1) of the Customs Act, Revised Statutes of Canada, chapter 40, as amended. The subsection reads as follows:

Notwithstanding subsection (1), where at any time it appears to the satisfaction of the Governor in Council on a report from the Minister that the goods, the export of which from any country is the subject of an arrangement or commitment between the Government of Canada and the government of that country, are being imported into Canada in a manner that circumvents such arrangement or commitment, the Governor in Council may, by regulation, prohibit or otherwise regulate the entry of goods to which the arrangement or commitment between Canada and that country relates.

Mr. Chairman, that section of the Customs Act was proclaimed in force on May 25, 1971. It followed directly from the tabling in the House of Commons in May 1970, by the Honourable Jean-Luc Pepin, of the Canadian textile and clothing policy. If I may do so, with your permission I would like to read what the Honourable Jean-Luc Pepin said when he made his statement to the House of Commons on the textile policy on May 14, 1970.

He stated:

Experience in recent years demonstrates that there is a lack of suitable means of identifying and preventing overshipments, or evasions of export restraints administered by certain supplying countries. This has led from time to time to critical problems of disruption. In order to forestall such developments in the future, improved measures will be introduced enabling the government to obtain more current information on imports and to supplement and support the policing of the restraint measures of the supplying countries.

He then went on to note what those proposed amendments would involve, and the section that I have just read from the Customs Act follows from that statement.

To the best of my knowledge, Mr. Chairman, section 22(2.1) of the Customs Act has never been used for the purpose of controlling trans-shipments in the textile industry. However, there is a second legislative authority for controlling imports, and that is in the Export and Import Permits Act, chapter 27, as amended, and I refer to section 5(c), which reads as follows:

The Governor in Council may establish a list of goods to be called and Import Control List, including therein any article the import of which he deems it necessary to control for any of the following purposes, namely:

(c) to implement an intergovernmental arrangement or commitment;

I understand, Mr. Chairman, that that section has been used on occasion to prevent trans shipments in the textile and clothing areas.

On February 11 Senator Bell asked me if I had figures to show the overall industry expenditure on research and development. I have been able to obtain that figure from Statistics Canada, and for the year 1973, the latest date for which the data is available, expenditures on research and development by the primary textile industry in Canada totalled \$4,400,000.

Senator Macnaughton: What period did that cover?

Mr. Armstrong: The year 1973.

Senator Macnaughton: One year.

Mr. Armstrong: One year.

The third question I was asked on February 11 was by the Honourable Senator Desruisseaux, which had to do with mill closures in the primary textile industry. I now table, and ask that it be included in the record, a list of mill closures in the primary textile industry since 1970. This list was obtained from the Department of Manpower and Immigration, and it is based upon the number of manpower assessment incentive agreements concluded during the period in question. To the extent that some closures may have taken place without the involvement of the Department of Manpower, the list may, to some unknown extent, understate the number of employees affected. The list I am tabling shows 30 agreements or closures during that period of 1970 to 1975, with 6,062 employees affected.

(For text of statement, see below)

Senator Desruisseaux: Before you go to another point, Mr. Chairman, may I ask Mr. Armstrong if he knows how many of these people that were unemployed after the closures were recycled into other industries?

Mr. Armstrong: I have not as yet been able to obtain that information, Senator Desruisseaux—we are still working on it—but it has been exceedingly difficult to determine whether these people have been re-employed. Certainly many of them have not, of that I am sure; but how many have not, I do not know.

There was one further item of business on which I should like to make a statement. Last week, immediately before adjournment, Mr. Tinker had planned, as chairman of Cleyn and Tinker Ltd., to make a statement to the committee. It was not possible for him to be here today, as he is out of the country, and with your permission, Mr. Chairman, I would like to table Mr. Tinker's statement that he had planned to make and have it included in the record.

The Chairman: Is it lengthy?

Mr. Armstrong: It is about four pages.

The Chairman: Is there any reason why we should not incorporate it in the proceedings? Agreed?

Hon. Senators: Agreed.

Mr. Armstrong: Mr. Chairman, that is all I had planned to say.

Text of statement follows:

My name is A.R. Tinker, I am Chairman & Chief Executive Officer of Cleyn & Tinker Co. Ltd., Huntingdon, Quebec and Paton Manufacturing Co. Ltd., Sherbrooke, Quebec.

Our mills in Huntingdon were started 48 years ago and employ approximately 775 persons. Our mill in Sherbrooke was started 110 years ago and employs approximately 375 persons. Ours is a family owned business and an entirely different operation from that of the producers of cotton and synthetic yarns and fabrics from whom you have already heard. 50 per cent of our production is in all wool worsted suitings for men's and ladies' wear. The balance of 50 per cent is in wool and polyester tropical suitings, and polyester/wool uniform fabrics.

A few years ago Japanese producers enjoyed a very small percentage of the Canadian market, approximately 4 percent to 5 per cent. Suddenly they decided to penetrate. This market and in a few short years obtained, in fabrics competitive to our own, some 30 to 35 per cent of the domestic market. They attached the better and finer fabrics which have a much higher labour content. Consequently, although we sold our competitive fabrics at cost or lower we were compelled to cease production of these fabrics which at one time represented 15% of our output. We have not been able to compete in this area since.

By 1973 Japan's "quota" had increased to approximately 4,000,000 square yards. In that year, however, the Japanese commenced to convert dollars into commodities and their worsted cloth prices rose rapidly from \$4.25 per yard to \$8.75 per yard by the end of 1973. Their exports to Canada dropped to some two million yards. During this same period our domestic fabric prices rose, but by a significantly lesser amount, from \$3.90 to \$6.25 per yard. This is one further demonstration of the role played by a domestic industry in price maintenance and illustrates how vulnerable Canada would be without a domestic textile industry.

In 1967 an export restraint was negotiated with South Korea at a level of 150,000 square yards. This restraint grew slowly to 175,000 square yards by 1971. In 1972 the bilateral restraint agreement was abandoned as performance against it the previous year had been negligible. South Korea immediately commenced booking large volumes in Canada and imports reached 996,000 square yards in 1972, almost 6 times the previous restraint level. By the time a new bi-lateral agreement had been negotiated the damage had been done and the six fold increase became the new negotiating base. For 1975 the negotiated restraint level was 1,197,800 square yards. If the old level had been used, even with a six percent increase compounded each year, today's restraint agreement with South Korea would be less than half the present effective level.

At this time I wish to point out the inadequacy of the present licensing of import orders placed with certain countries. While orders for worsted fabrics must normally be placed with suppliers at least four to six months prior to delivery an import license need only be applied for and obtained in time for clearance of the goods through customs in Canada. If the intent of the import licensing system is to provide government with advance market information in order to be able to take action in time to prevent pre-emption or flooding of a market, it does not achieve that purpose in the case of worsted fabrics. To cite an example—on February 5, 1976 the Office of Special Import Policy of the Department of Industry, Trade and Commerce had received requests for import licences covering the proposed importation of 109,000 square yards of fabric from the People's Republic of China. At that time we had definite information confirmed to us by our customers, of orders placed totalling 740,000 square yards. If a method could be developed of requiring application to be made for an import license at the time an order was placed then the actual future import situation would be clarified and restraints could hopefully be imposed before too large a base was established as was our experience with Japan and South Korea.

These Chinese fabrics, by the way, are directly comparable with four of our basic ranges which represent 70 per cent of our production. Imports from China could become very large as these fabrics land in Canada, duty paid, at \$1.00 per yard less than our current price level. If this kind

of erosion is allowed to continue it will force the closing down of one of our plants, and eventually both. Although I have only mentioned Japan, Korea and China there are many other countries, such as Poland, Czechoslovakia and India, which could suddenly become serious threats to our industry. Earlier in these proceedings the Honourable Senator Cook expressed an interest in tariff rates. In the case of worsted fabrics the effective duty rate on imports into Canada is \$1.10 per pound, which in the case of a typical fabric is about 16 per cent—17 per cent. In the United States the same fabrics are charged a rate of 38 per cent plus 37½ cents per pound.

As has been mentioned previously by others, due to the uncertain future of textiles in Canada we have been expanding our operations overseas during the past few years and have opened two new plants in the Irish Republic. This program has not affected our modernization program in Canada as we feel, and know from our many contacts in the U.S.A. and Europe, that our Canadian plants are as modern as the best and better than most.

In conclusion, it is interesting to note that 25 to 30 years ago there were 20 mills in Canada producing fabrics similar to ours. Today three companies are left, and I feel that it is probably due to this erosion that we are still in business. Obviously Canadian fabric and garment manufacturers cannot compete against foreign low cost production without some form of non-tariff import restraints.

Senator Laird: Mr. Chairman, I would like very much to pin Mr. Armstrong down with regard to the mechanism that is available for controlling imports. General statements have been made by witnesses here that there was not too much fault found with the existing legislative machinery, but there were real complaints about the way it operates.

Mr. Armstrong: Mr. Chairman, do you feel, from your answer to Senator Connolly's inquiry, that adequate machinery does exist to control the situation, if it were properly used?

Mr. Armstrong: Yes, I do.

The Chairman: You have the word "properly" in there. Do you mean, "if used," or "if properly used"?

Senator Laird: Well, I suppose we should be careful there. Let us say, "if used".

Senator Cook: Perhaps we should say, "if used in the way the witness would like it used."

Mr. Armstrong: Exactly.

The Chairman: Well, "if used in accordance with the intention expressed by the minister," as read by Mr. Armstrong.

You mentioned two items, Mr. Armstrong, namely, section 22 of the Customs Act and section 5(c), I think it was, of the Export and Import Permits act. The section in the Customs Act, I understand from you, has not been used at all to regulate imports.

Mr. Armstrong: To the best of my knowledge, that is correct.

The Chairman: If it were to be used, how would it get started?

Mr. Armstrong: It would get started on an application, or a recommendation, I would guess, from the appropriate

branch of the Department of Industry, Trade and Commerce.

The Chairman: Well, is this something that they simply generate out of their own thinking, or does the industry have to make a move?

Mr. Armstrong: The industry has urged the department for two to three years, as we noted in our remarks in the proceedings on February 11. We had been facing a serious problem of trans-shipments, and in fact, that had preceded the announcement of the textile policy, as is evident from Mr. Pepin's statement.

We had tried for many years to get the department to use the provisions of this section, without success. Within the past year the department has begun to use the provisions of the Export and Import Permits Act to achieve that purpose; but in the meantime some four years have elapsed during which we had a textile policy, and trans-shipments were rampant in many cases.

The Chairman: Well, tell me, has any record been made of what has been done by the industry to bring this matter of trans-shipments, and any other questions that might relate to the application of section 22 of the Customs Act, to the attention of the department?

Mr. Armstrong: Yes. I would be very pleased to provide such a record to the committee.

The Chairman: There must be something more than just oral requests.

Mr. Armstrong: We have held many meetings with officials with respect to the problems of trans-shipments. Minutes of those meetings exist, and I would be glad to provide a record.

The Chairman: You talk about many meetings. With what officials?

Mr. Armstrong: With the Office of Special Import Policy, in particular.

Senator Walker: The head man?

Mr. Armstrong: Yes, sir.

Senator Walker: Why are they not doing this?

Mr. Armstrong: That, of course, is the question we asked ourselves on many occasions.

Senator Walker: Pepin said he would pass the amendment; he has done so; and nothing has been done about it.

Mr. Armstrong: Quite right, until very recently.

Senator Connolly: Is that an amendment to section 22 that you are talking about?

Mr. Armstrong: Yes. It came into force in 1971.

Senator Connolly: But that, at best, is a very slow process, is it not? That is after the event, too.

Mr. Armstrong: Yes, that is after the event.

Senator Connolly: Well, that is not what you are looking for. You have a lot of after-the-event stuff and lots of material to help you once the horse is stolen; but shutting the door then is not helping you.

Mr. Armstrong: Well, what it would do, senator, is this: once trans-shipments were dealt with effectively, efficiently and vigorously by government, trans-shipments would begin to dry up. Once countries discovered that they could not trans-ship goods to Canada through a third country, and thereby evade the provisions of an agreement or arrangement that Canada had with that country, I suggest they would dry up.

Senator Connolly: Perhaps I can put it this way: it is certainly not as good as the American action that you described, and that is apparently so quick.

Mr. Armstrong: That is right.

Senator Connolly: What about section 5(c)? Is that the right section?

The Chairman: Yes. That is section 5(c) of the Export and Import Permits Act.

Senator Connolly: I am not familiar with that section. Do you mind telling me what is in it without reading it? It may be rather long.

Mr. Armstrong: That section provides that any goods that are listed on the import and export control list, and are subject to an intergovernmental arrangement, a bilateral agreement on export restraints in this case, may be controlled as to their entry into Canada.

Senator Connolly: That is, if they are under an agreement.

Mr. Armstrong: That is right.

Senator Connolly: As I understand the specific point that you raised, it is not so much the goods that are subject to the agreement that you are speaking about, because usually they are kept within bounds, but it is when the agreement is allowed to lapse and other devices are employed to circumvent the purport of the agreement that the damage is caused to your industry in Canada, is that so?

Mr. Armstrong: That is so, senator.

The Chairman: I am not clear on that point. What we are talking about, does it refer to the voluntary quota agreements? Is that what the section is dealing with?

Mr. Armstrong: Yes. I am informed, Mr. Chairman, that for some time the Department of Justice held the view that section 5(c) was not appropriate for the purpose which we are now discussing, but that a year ago they changed their mind and have informed the Office of Special Import Policy that section 5(c) could be used to prevent trans-shipments.

Senator Connolly: As well as section 22?

Mr. Armstrong: Yes. Section 22 is a much broader authority.

The Chairman: Which is the broader one of the two?

Mr. Armstrong: Section 22 of the Customs Act.

Senator Connolly: Then section 22 is enforced by the Customs Department, and section 5(c) of the Export and Import Permits Act is enforced by the Department of Industry, Trade and Commerce, is that so?

Mr. Armstrong: That is my understanding, senator.

Senator Connolly: So you have two authorities which might deal with the same thing.

Mr. Armstrong: Yes.

Senator Connolly: So how do you know which one to go to?

Mr. Armstrong: Well, we go to the Department of Industry, Trade and Commerce and we ask them to control trans-shipments. We don't really care whether they use section 22 or section 5(c).

Senator Connolly: Is section 22 of the Customs Act available to the authorities in the Department of Industry, Trade and Commerce?

Mr. Armstrong: Yes, because in any event it must be on the recommendation of the Governor in Council in both cases.

Senator Connolly: I understand that, but I wondered if there was specific authority in the Customs Act which gave authority to the minister.

Mr. Armstrong: It is when it appears to the satisfaction of the Governor in Council, on a report from the minister.

Senator Connolly: That is probably the Minister of National Revenue. So you have two authorities there. This is the reason, Mr. Chairman, why I thought, with all respect to Mr. Armstrong, that perhaps he would prefer to see the solicitor for the industry association comment specifically on the legal problems we have before us. If there is something further to be brought before us on that, then we might be better off when cross-examining the authorities from the department.

Mr. Armstrong: Well, I will try to prepare something.

Senator Connolly: I am not suggesting that you should, but perhaps you might think about it.

Senator Hays: Mr. Chairman, could Mr. Armstrong give the committee a blatant example, where trans-shipments are concerned, of the kind of thing we are talking about this morning?

Mr. Armstrong: The example that comes to mind concerns filament fabrics made in Japan and exported to Canada via Hong Kong. Now it was recognized by the authorities and by the officials of government that there were no facilities in Hong Kong for manufacturing these filament fabrics—no finishing facilities, no spinning and no weaving; and these fabrics were arriving in large volumes from Hong Kong, having been made in Japan. It was recognized and admitted by all concerned that these were, in fact, Japanese goods coming through Hong Kong for the purpose of avoiding the restraint arrangement with Japan which had been completely filled. Now the details on which I have based my statement are here in our submission in Appendix VI.

Senator Hays: Did you anticipate this?

Mr. Armstrong: Yes, and the minute it started happening we knew it was happening because of trade information. One of our member companies that produces these filament fabrics was told, when endeavouring to sell his fabrics in the trade, that his customer had purchased fabrics from Hong Kong. Our member, Mr. Taran who has spoken to the committee, knew as a fact that there were no

facilities in Hong Kong for the production of these fabrics. That is what started the investigation.

Senator Hays: What did Mr. Taran do then? Whom did he see?

Mr. Armstrong: As a group, including Mr. Taran, we held many meetings with the officials of the Department of Industry, Trade and Commerce. We saw the General Director of the Office of Special Import Policy and his staff, and also the General Director of the Textile and Consumer Products Branch.

Senator Hays: Could we have the whole exercise—what you did, what they did, what eventually happened, if the shipment was from Hong Kong—the whole thing?

The Chairman: Do you mean, what could be done under the act?

Senator Hays: What I was trying to pinpoint, Mr. Chairman, was how to avoid these things in the future because it seems to me that that is what some of the sections are about.

The Chairman: There is an authority to prevent this.

Senator Hays: Yes, but it did not happen.

Mr. Armstrong: I would refer honourable senators to Appendix VI of our submission, at page 55, where we deal at some length with the problem of trans-shipments and give an historical record of what transpired. If you so wish, I can certainly amplify what is said there, but that gives the details. We say that during the summer and fall of 1974 industry representatives had several meetings and discussions with government officials. If you would like chapter, verse and dates, we would be glad to provide them.

Senator Connolly: Is the conclusion that was reached found in the last paragraph on page 57?

Mr. Armstrong: Yes, the conclusion we came to was that government did not show itself to be as sensitive as the seriousness of the issue required.

Senator Connolly: But earlier in the paragraph, if I have read it correctly, you seem to be saying that they were not going to bother with this shipment because on the weighted average of a number of shipments the quota really had not been exceeded. Perhaps I should not use the word "quota" but the amount that came in to Canada was not excessive.

Mr. Armstrong: It certainly is not intended to say any such thing, senator. The case we refer to involves polyester filament fabrics where the Canadian industry holds 25 per cent of the market. Export restraints with Japan are completely filled every year. This is a highly sensitive product and, because the restraint agreement with Japan had been filled, we were very concerned when the additional goods arrived in Canada from Hong Kong. If I might, with your permission, I shall read to you the final paragraph appearing on page 57 of our submission.

At the time the Board expressed these firm opinions the Canadian producers' share of the Canadian market for polyester filament fabric was about 30%, on a weight basis, with two thirds of the imports being supplied by Japan and Korea (42% and 23% respectively). Certainly the encouragement referred to by the Board was not in any way stimulated by the lack of decisive Government action in negotiating with Korea

nor with the relatively simple problem of trans-shipments. Government did not show itself to be as sensitive as the seriousness of the issue required.

Senator Walker: This has been happening with Japan for the past 16 years. As far as I have been able to find out, they do not give a damn what regulations you have or what the act says because they will find some way of getting around it. What disciplinary action has the Canadian government taken to put a stop to these slippery methods of getting around the law? I know from experience that this is going on constantly, and it is all very well for you to tell us that it has happened, but what has the government done, and if they have not done anything, then what should they be doing? Let us get down to that point now.

Mr. Armstrong: The government is empowered to prevent these trans-shipments and should do so. They are now doing so in one or two cases, but there has been no penalty imposed, to the best of my knowledge.

Senator Walker: Has any country ever been penalized as a result of breaking the Canadian law?

Mr. Armstrong: Not to my knowledge.

Senator Connolly: Is there any authority for levying a penalty?

Mr. Armstrong: The International Textile Arrangement, which is the guide in these matters, provides for certain over-shipments being unacceptable—that is, over-shipments not trans-shipments—some five per cent, and that there is provision for deducting the over-shipment in the following year's agreed restraint.

Senator Walker: That is not much of a penalty; that is only getting even.

Mr. Armstrong: Getting even, yes.

Senator Walker: Has anything more been done than that? That is ridiculous.

Mr. Armstrong: No.

Senator Walker: Have you pressed that more be done?

Mr. Armstrong: Yes, we have.

Senator Walker: What have you suggested should be done?

Mr. Armstrong: We have suggested, first of all, that it was ridiculous in the case of Korea, for example, to give that country an increase in their restraint following a year in which Korea had over-shipped its negotiated restraint by 50 per cent.

Senator Walker: Yes, that is idiotic.

Mr. Armstrong: Yes; it is nonsense, in our opinion.

Senator Walker: But you got no reply from that?

Mr. Armstrong: No, no response; and Korea got an additional increase.

Senator Walker: Have you ever got from any Canadian government any redress for the over-shipments which have taken place?

Mr. Armstrong: No, we have not.

Senator Walker: That is a shocking situation.

The Chairman: There is power under section 22 of the Customs Act to prohibit, is that not right?

Mr. Armstrong: Yes, there is, to prohibit or otherwise regulate the entry of goods.

The Chairman: Would that not be tantamount to the embargo right which is used by the United States in cases of over-shipment?

Mr. Armstrong: Yes, it is.

The Chairman: So a similar type of authority exists; the only difference is a lack of willingness to exercise it. Is that not the situation?

Mr. Armstrong: Exactly.

The Chairman: It would not be the lack of push on the part of the industry, would it?

Mr. Armstrong: I do not think so; I think we push very hard.

The Chairman: And you are going to demonstrate that to us?

Mr. Armstrong: Yes, I am.

Senator Walker: Getting down to the question of who was responsible for this, is it the situation that the department is just lying on its oars and doing nothing specific?

Mr. Armstrong: Yes, that has been the case.

Senator Walker: And that has been the case over the years, without any abatement?

Mr. Armstrong: Yes, certainly since prior to the institution of the policy, in 1970. I did say, however, that in recent months they have been using some action to prevent trans-shipments under section 5(c) of the Export and Import Permits Act.

Senator Walker: They are doing that now?

Mr. Armstrong: Yes.

Senator Walker: But you have not seen any results of that yet?

Mr. Armstrong: No.

Senator Macnaughton: In a letter from you, Mr. Armstrong, dated January 30, 1976, to the editor of *The Gazette*, in the fourth paragraph on page 2, appears a summary of your case. I do not wish to misquote you, because your charge is pretty heavy. The paragraph reads as follows:

A root cause of the trouble lies in Canadian "attitude". As representatives of a world-trading nation our government people . . .

I underline that and will continue to read the paragraph:

. . . tend to be liberal-minded beyond the needs of the day, beyond the parliament approved policy and its objectives, and certainly beyond the attitudes and behaviour of competitive nations with which they have signed international agreements.

Mr. Armstrong: That is my firm opinion.

Senator Macnaughton: So your charge is against the officials who carry out the national policy, as it were?

Mr. Armstrong: Yes, sir.

Senator Walker: It is a pretty serious charge.

Mr. Armstrong: Well, we believe that the attitude is as I have expressed it in that letter to *The Gazette*.

Senator Macnaughton: Then you go on to cite various myths...

Mr. Armstrong: Yes.

Senator Macnaughton: ...which we do not need to detail here.

The Chairman: Maybe we need a school for the proper treatment of Canadian industry.

Senator Hays: Mr. Armstrong, you say that you have tabled the minutes of these various meetings with officials?

Mr. Armstrong: I said I will table them.

Senator Laird: Will you name names?

Mr. Armstrong: The minutes will contain the names of those who were present at the meetings.

Senator Laird: Because you will not get anywhere by shrouding it in anonymity.

Mr. Armstrong: The minutes will contain the names of those who were present at the meetings.

Senator Walker: They gave undertakings to take action, did they not?

Mr. Armstrong: Yes, we did receive undertakings. As a matter of fact, a couple of years ago there was a series of meetings with an assistant deputy minister who became involved at that time, and we were assured that action would be taken.

Senator Walker: Did the minister ever sit in at any of your conferences?

Mr. Armstrong: No.

Senator Walker: Did you ever receive any undertaking at any time of any kind from the minister?

Mr. Armstrong: No; but we have discussed this matter, along with other matters, with the minister from time to time.

The Chairman: There was nothing in the way of a commitment?

Mr. Armstrong: No.

Senator Cook: I gather, Mr. Armstrong, that there is a very large productive capacity in the textile trades in all countries of the world, including the U.S.A.?

Mr. Armstrong: Yes.

Senator Cook: Would you care to give a rough estimate of what our present share of that capacity might be in relation to the rest of the world?

Mr. Armstrong: For the whole world I would have to refer to our data in the office, and I would be glad to provide it. As between Canada and the United States, on most basic economic indicators the American industry is ten times the size of the Canadian. For example, the pri-

mary industry in Canada employs 100,000 people, more or less; the United States primary industry employs one million people.

Senator Cook: Taking the whole world into consideration, our share of the textile production would probably amount to only two or three per cent.

Mr. Armstrong: I would think so, but I would like to examine that.

Senator Cook: Assuming that it is somewhere in that ball park, if we were completely stopped, it would have a terribly serious effect on capital investment, labour and our GNP in Canada.

Mr. Armstrong: Yes, it would.

Senator Cook: But if all our present production were shared around the whole of the world, it would not make very much difference to all the other countries?

Mr. Armstrong: No, it certainly would not.

Senator Cook: Do you think that if that happened it would tend to increase the wages which we heard are paid in Hong Kong and other eastern countries?

Mr. Armstrong: No, I do not think so. It will be many years, in my judgment, before wages in some of those countries start growing. They have increased in Japan, which has now become an industrialized nation and likes to be so considered at meetings in Geneva; Japan likes to be considered as one of the developed countries. However, as you heard from Mr. Yamaguchi last Wednesday, Japan is now being subjected to imports from the less-developed countries of the Far East, in which the wage rates are, as I mentioned on February 11, 14 cents or thereabouts per hour for a skilled seamstress in finishing the jacket of a man's suit. In my judgment it will be many, many years, whether we are in business or out of business in Canada, before those wages will increase very significantly.

Senator Cook: Generally, speaking only of the textile industry, we could perhaps beggar ourselves and the benefits would be spread so thin elsewhere that it would do no one much good.

Mr. Armstrong: That is so in my judgment, and we have already done more than our part. In relation to other countries of the world, we accept more imports from the less-developed countries than any other industrialized nation in the world.

Senator Laird: Is that in quantity or in percentage?

Mr. Armstrong: I should have added that it is per capita and in some cases, in absolute terms. However, the statement I made was on a per capita basis.

Senator Desruisseaux: Mr. Chairman, there was an article, I believe, in *The Gazette* which appeared under the name of Mr. Armstrong. I would like to read part of that article and then question Mr. Armstrong. So far as I am concerned, it would seem that the whole pattern of happenings with regard to textiles is at present doomed to a policy of liberalization of trade. It will have to be clarified somehow as to whether it has been so good in Canada that we should continue to opt for that. In the article it says:

Most nations depend on other methods to keep international trading on an even, non-destructive course. Quotas are widely used throughout GATT nations, and

while Mr. McGillivray's description of Canadian quotas as barbed wire strung out to snag incoming textiles may read dramatically, it is sadly myth rather than fact.

I will be asking you to clarify that one point, if you can, Mr. Armstrong:

Only six per cent of all imports of textiles and apparel are subject to restraints. Compare this with the U.S. where an estimated 70 per cent of textile imports are under restraint.

The frustration for Canadian textile manufacturers and their employees is that while they know they represent a valuable sector of the economy and they know that they are technologically sophisticated, and they know that there is relatively little effective protection, they continue to hear myths that seemingly lead to a continuing casual attitude in the application of accepted policies which other developed nations all employ.

They also hear spasmodic suggestions about dismantling their industry and dispersing its employees. Even *The Gazette* talks of following the lead of Sweden in this direction.

Sweden actually did at one time try something like this. But in short order the economic recklessness of the experiment became evident, and Sweden today is one of the forerunners in trying to get the maximum possible protection for its textile industry out of the GATT organization. That is fact, not myth.

Could we develop that a little, Mr. Armstrong?

Mr. Armstrong: What I said in that letter to the editor of *The Gazette* was really, I think, a summary of what we have said in our submission to the committee. We had felt that other governments under the same international constraints as we have been able, through quotas and otherwise, to effectively support their domestic industries, and we have said that Canada has not effectively done so, even with the existence of a policy which says that that is the objective of the government.

In the case of Sweden, it is quite true that Sweden for some time dismantled portions of its industry, to the point where they were supplying a very small percentage of the Swedish home market. It was then discovered a couple of years ago that Sweden was not in a position to even clothe its armed forces, which I understand from my counterpart in Stockholm was the reason for the sudden turn-around in government policy; they realized they had gone too far. They are now scrambling to restore the domestic market to Sweden, to some extent in any event, and I understand they are now among the most protectionist of the nations meeting in Geneva from time to time in connection with the international textile arrangements.

Senator Connolly: I have two points. During the war, did the Canadian textile industry supply the armed forces?

Mr. Armstrong: Yes. Mr. Enkin, from whom you will be hearing later, was deputy clothing administrator, and I was deputy wool administrator, during the war, and we did supply the Canadian armed forces.

Senator Connolly: To the full extent?

Mr. Armstrong: Yes.

Senator Connolly: What about now?

Mr. Armstrong: We could still do so now.

Senator Connolly: You mean you don't?

Mr. Armstrong: We do—but in the event of a war.

Senator Connolly: Yes; but I mean at the present time.

Mr. Armstrong: At the present time we do supply the armed services, yes.

Senator Walker: Has someone told us, Mr. Chairman, how the Americans are able to stop these illegal imports and we are not?

The Chairman: Actually, the medicine they use is very simple. They have quotas for a product, as I understand it, and that has to be sorted out among all the exporting countries which are tendering that product, so each one may get a percentage of that. If you over-ship, there is an embargo right away.

Senator Walker: On the whole—on everything?

The Chairman: Yes. That is why I mentioned the other day that if we had something like an interim injunction proceeding, where everything stands still until the question is resolved, that is the kind of treatment one would appear to need.

Senator Walker: It certainly is. Has that been contemplated by the government?

The Chairman: I am not in the government's confidence as to what, if any, contemplation has been directed to this point.

Senator Walker: That will be the day, Mr. Chairman!

The Chairman: It may come later in these meetings, because we expect to hear from the departmental officers. As I have already said, the Textile and Clothing Board has requested the opportunity to appear.

Senator Desruisseaux: The point I wanted to make, Mr. Chairman, is that the phasing out of the textile industry, which has been mentioned a few times by different people in responsible positions, has been tried somewhere else under similar conditions and failed. My point in reading the quotation from Mr. Armstrong's letter to *The Gazette* was to point out to the committee that it has been tried and failed. If it has failed, we should find another solution.

Mr. Armstrong: Thank you, senator.

Senator Macnaughton: Mr. Chairman, could I ask a rather nasty question? It seems to me that the evidence so far has been pretty one-sided. The government people—who, let us assume, are as honest as are the rest of us—say there is another side to this story, and *The Gazette*, in its editorial, uses these words:

Such a protective policy . . .

Which is the subject we are talking about, I presume a policy for the industry:

. . . hurts Canada's chances of negotiating access to foreign markets for products of more advanced sectors of manufacturing.

What is your answer to that charge?

Mr. Armstrong: I would like to see the research basis for such a statement. When Ms. Pestieau was asked a question last week, she referred to the one-shot sale of a CANDU

reactor to Korea and wondered whether that really enters into the consideration that we are talking about in negotiating restraint agreements with Korea. I do not think it does. I have yet to see the research on which statements like that have been based.

The Chairman: Senator Macnaughton, perhaps the question, in more particular form, would be whether there is anything in the nature of any of the exports we make to developing countries that becomes so important to Canada that we should be ready to yield on the question of textiles to the disadvantage of Canada.

Mr. Armstrong: Of course, I do not think so.

Senator Macnaughton: That is the basic question.

Senator Connolly: Mr. Chairman, even if you did not wish to go that far, I think, from the evidence we have had so far, that we at least question the wisdom of allowing excess over-shipments that are permitted by voluntary restraint agreements.

I think that is what Mr. Armstrong and the other witnesses have been complaining about more than anything else. In other words, there are voluntary restraints established bilaterally, and the other party to the agreement uses devices of various kinds, certainly to violate the letter of the agreement when it is still in existence, and to violate the spirit of the agreement if it happens to lapse.

The Chairman: I think your language is very restrained, senator, when you talk about violating the letter of the agreement. If there is an agreement that provides for a voluntary restriction, or a quota, it is either clear in quantity or it is not. Mr. Armstrong had been talking about over-shipments. I expect you use that term advisedly.

Mr. Armstrong: Yes, I do, Mr. Chairman. I would not like to leave the impression with the committee, however, that over-shipments are the only problem we face. Mr. Brady, who will be following me as a witness, will be dealing with the much broader aspect of exactly what it is we are requesting. We were asked to table a paper at the last meeting outlining, in some detail, exactly what it was we felt would bring a solution to the problems we discussed with the committee. Mr. Brady will deal with that in a few moments.

Senator Hays: Dealing with employment in the textile industry, you used the figure earlier of 100,000 people. What part of the industry employs 100,000 people?

Mr. Armstrong: That is the primary textile industry alone. It does not include the apparel industry which, as you will hear shortly, provides additional employment for something over 100,000 persons.

Senator Hays: So, 100,000 people are involved in the manufacturing of yarn, and so forth?

Mr. Armstrong: They would be employed in the manufacturing of fibres, yarns and fabrics, but not clothing.

Senator Hays: That figure would not include those employed in the transportation of the product, and that sort of thing?

Mr. Armstrong: No, that is direct employment in our mills. There is no multiplier used.

Senator Walker: What are the maximum numbers of people you have employed in peak years?

Mr. Armstrong: The industry employed 103,000 people a few years ago. I think the latest figure in our brief shows that employment is now down in the neighbourhood of 93,000.

Senator Hays: Is the difference due to increase efficiency in the industry?

Mr. Armstrong: We take the position that the difference is due, in large measure, to low cost imports pre-empting and taking over a growing share of the Canadian market. We feel that is the most important reason for the decreased employment.

Senator Hays: I take it the Canadian industry compares favourably, at least from an equipment point of view, with foreign competitors?

Mr. Armstrong: I believe our industry is as technologically efficient as our counterparts in any country in the world. This was found to be so by the minister after a very prolonged in-depth study of the industry involving the use of three internationally recognized firms of management consultants. There is no question that this is an efficient industry.

Senator Hays: The additional costs, then, are made up by way of higher wages and volume?

Mr. Armstrong: Yes, and scale, the economics of scale. For example, where more than half of our market has been taken up by low cost imports, the scale that is left to us, the volume that is left to us, may, in some cases, be less than the optimum required for maximum efficiency.

Senator Hays: And you are saying that if you had a 65 per cent share of the market, that would make for sufficient volume?

Mr. Armstrong: Yes, it would.

Senator Desruisseaux: The Canadian Textiles Institute, in its submission to the committee, sets out five recommendations. I am wondering whether Mr. Armstrong has any additional comments he wishes to make in relation to those five principal recommendations.

Mr. Armstrong: With your permission, Senator Desruisseaux, I should like Mr. Brady to deal with that aspect of it.

The Chairman: If there are no further questions of Mr. Armstrong, I will call on Mr. Brady.

Mr. F. P. Brady, Vice-President and General Counsel, Dominion Textile Ltd: Mr. Chairman, as the discussion was proceeding, it became evident to me that what both the industry and this committee have been facing is a policy, and the application of that policy, that is a piecemeal, band-aid approach, and a very frustrating one. I think what I should like to put before the committee is a recommendation for a policy that will have a much more forward-looking thrust.

All of the elements that have been discussed by the committee, and so ably brought forward in the questioning, are *ex post facto*; they are things that are being done after a situation has developed. It amounts to trying to close the stable door after the horse is out. What we will be putting before you, hopefully, are recommendations that look to the future and provide a real framework for this very vital industry and, hopefully, recommendations

which will rekindle—and I want to emphasize this point—rekindle the investment spark.

Over the last few years, particularly the last four or five years, the climate in the industry has not been conducive to investment. We would like to bring about a good climate of investment and really bring the industry to the fruition it deserves. Also, the type of policy we would like to suggest to you, and its application, is the same as that applied by our major competitors, being the United States, the member nations of the EEC, the United Kingdom, and so forth.

I will be asking Mr. Jackson to distribute some recommendations along those lines. Essentially, they are the same as those contained on page 35 of the Canadian Textiles Institute submission, but with some amplification resulting from questions raised by the committee in our previous meetings.

I should like to take a moment of the committee's time to point out that there are two elements involved, the first being the domestic element. In other words, what, if anything, has to be done to the domestic legislation so that it fits within the parameters of the international legislation which governs the trading of textiles in the world? A point that has not been brought out thus far is that our policy emanates from the Textile and Clothing Board Act, and all of the actions that arise come out of an injuries and damage concept. Under sections 8 and 9 of the Textile and Clothing Board Act there has to be injury, damage or threat thereof to trigger some action. If an industry is not hurting, it is not laying people off, its balance sheet is not going down, nothing happens. It is only when these things are happening that you can trigger action.

Section 8 of the Textile and Clothing Board Act reads as follows:

A person who produces in Canada any textile and clothing goods, hereinafter referred to as a "Canadian producer", or a person or association acting on his behalf may file a notice of complaint with the Board alleging that the importation of the textile and clothing goods described in the notice is causing or threatening serious injury to his production in Canada of any textile and clothing goods.

So we have to sit back, wait a while, see if we are injured, and if we are injured go in front of the board.

Senator Connolly: In the meantime the horse is stolen.

Mr. Brady: In the meantime a lot of things are happening in the marketplace; that is quite true. The scenario is this. Our market people are very sensitive to what is happening in the marketplace; they hear of price quotations, they hear of imports coming towards us and they will advise us. But then it does not appear in the statistics. The first thing encountered is a statistical lag. These things come forward; they get into Statistics Canada's statistics, but you are looking at an immediate time lag of two or three months from the time it first touches the sensor until it gets into the statistics.

Then you apply to the Textile and Clothing Board, which, incidentally, has been a very good instrument. It has been a very good tribunal, a very good fact-finding body, and at least it has provided us with one forum where we could direct our inquiries. You go to the Textile and Clothing Board; you have to convince them that there is *prima facie* injury or damage, or threat thereof. They then put out a notice. They have to call a hearing; all the

interested parties are convened—ourselves, importers, various government people, consumer groups and so on—so with all the good will in the world, and all the speed possible, you are looking at a delay of three to four months. This is after the statistics have come along.

The board then makes recommendations. This is where we lose contact. We have had good input up to this point. When the recommendations are made the line goes blank. These recommendations then go to an interdepartmental committee, on which I take it there are representatives from the Department of Finance, the Department of National Revenue, CIDA, External Affairs and several of the key departments that have some input in these recommendations. We do not have any. If they have some input, we do not.

With all the good will in the world and everybody pulling a strong oar, all this means that from the time we are first affected, or know we are going to be affected in the marketplace, I would say there is a minimum delay of six months. There have been cases where it has gone a year or thirteen months, and in the Canadian Textiles Institute brief this is documented chapter and verse.

Basically, that is the procedure. From there, if the recommendations are acceptable to the minister and/or the cabinet—I understand that in certain cases it requires cabinet approval for these recommendations—if they have not been amended, or even if they have been amended, they are given to the office of the special import policy, set up to negotiate a restraint agreement with a particular country usually, or even perhaps a series of countries. One is talking about one product, or a very limited number of products, and an agreement with one country, or in some cases with a number of countries, which has to be negotiated. The whole thing takes a year or a year and a half. Many times the whole marketplace has flipped over two or three times in the meantime. This is the domestic side.

It all ties in with the international agreement on textiles. There are two concepts in that agreement; there are two basic articles, Article 3 and Article 4. Article 3 of the international agreement is the one linked in with the damage/injury concept. At page 46 of the Canadian Textiles Institute brief there are extracts from Article 3 and Annex A of the agreement, which state that if a country's market has been disrupted, if there has been serious damage or threat of damage, then certain things happen. We are tied in with Article 3. However, for the determination of serious damage we have to go through the board route and so on. We go through the board route assuming all is well, and then what I will term an Article 3 agreement is negotiated.

The other side of that coin are Article 4 agreements. Here the concept is much broader. Article 4 says:

Participating countries may, consistently with the basic objectives and principles of this Arrangement, conclude bilateral agreements on mutually acceptable terms in order, on the one hand, to eliminate real risks of market disruption.

I would ask you to remember those words—"to eliminate real risks of market disruption." This is forward looking. They do not have to be injured; they do not have to have an immediate threat of injury; they can just sit down together and negotiate what I call textile trade treaties to look to an orderly flow of textile products between their countries, and in this way eliminate these real risks of market disruption.

That is the concept I think we must get to. That is the concept used by our major trading partners. It is the concept used by the United Kingdom. It is the concept used by our American friends. Recently I was looking at what is happening in England. Perhaps we could have distributed to honourable senators these extracts from the United Kingdom weekly *Hansard* for December 17, 1975, when the whole issue of textile imports was being discussed by Mr. Denis Healey, the Chancellor of the Exchequer. At page 1410, Mr. Healey, discussing import restrictions, said:

By virtue of an agreement inside the Community for sharing the import burden, the future growth of the Community's textile imports is distributed so as to ensure that those member States which have taken most of the Community's imports in the past will take least of their growth in the future. This arrangement is particularly helpful to the United Kingdom since we have traditionally had a relatively liberal import regime.

Their import regime has been more or less along the same lines as our own. If you look at import penetration in the United Kingdom, in round numbers you are looking at about 50 per cent; ours is a little over 50 per cent.

Senator Connolly: I notice that in *Hansard* Mr. Healey also indicates that there is a continuing, on-going discussion between the United Kingdom and other authorities with reference to import controls. Is that not so?

Mr. Brady: That is right.

Senator Connolly: Do we have such continuing on-going discussions in Canada?

Mr. Brady: I do not think to the same extent or the same degree. We have continuing negotiations which are these restricted Article 3 types of negotiations.

Senator Connolly: This refers to Article 4.

Mr. Brady: In Canada it is Article 3. In the United Kingdom it is Article 4 type discussions that go on. They are now part of the Community, and I think this would indicate the type of discussions you might be referring to. Mr. Healey goes on to say:

So far the Community has reached restraint agreements with Hong Kong, South Korea, Pakistan, India, Singapore, Malaysia and Macao, and Japan. Corresponding unilateral restrictions have been imposed on Taiwan, which is not a party to the MFA. Further agreements are still to be negotiated with Poland, Hungary, Rumania and a number of relatively minor suppliers in the developing world.

I certainly will not read the whole discussion into the record, but I think the key to the whole discussion is at page 1411, where he says:

As a result, virtually all imports of textiles and clothing from low cost sources are now subject to control. In particular, whereas before this action only a small range of clothing was subject to restriction, now nearly all varieties of clothing from significant low cost sources are controlled.

Senator Connolly: You say about Canada?

Mr. Brady: No, sir. We are definitely at the other end of the spectrum. I think the figure has been quoted before that now only 6 per cent of all imports are under some form of restraint arrangement.

Senator Connolly: Do we need to know what countries are involved in those restrictions, Mr. Chairman? A list has been given of the number that Britain has these arrangements with. Should we know, in this committee, what countries we have restrictions with?

Mr. Brady: I do not have the precise countries with me. We certainly could make available to you a list of the countries.

Senator Connolly: Perhaps we should know the countries with whom we have bilateral arrangements. I would think from what you have said, Mr. Brady, that these would be under Article 4 of the international agreement.

Mr. Brady: Are you referring to the Canadian or to the United Kingdom?

Senator Connolly: I am referring to the one you discussed.

Mr. Brady: The Canadian ones are all Article 3 arrangements.

Senator Connolly: I do not understand why, however, it does not matter. I come back to the question of whether we perhaps should know the countries with whom we have bilateral agreements, and the other countries' low cost producers with whom we have no bilateral agreements and which I would assume these people would say pose a threat to the Canadian textile industry.

The Chairman: And a further question would be, why not?

Senator Connolly: All right.

Senator Cook: I agree with Senator Connolly, but before that we want to know why the Canadian government has elected to go by Article 3 when everyone else has gone by Article 4. That is the crux of the matter. If you go by Article 3, the agreements instituted and everything that follows is entirely different than if you go by Article 4, which is the U.K. and so on.

Senator Connolly: My understanding of what you said about the international agreement on textiles is that Article 3 provides a method of attempting to correct a situation which has occurred and which has disrupted the industry in Canada.

Mr. Brady: That is right.

Senator Connolly: Article 4 says that there is authority under this international agreement to seek out low cost producers and arrange bilateral agreements with them to restrict the flow of imports into Canada.

Mr. Brady: You have the distinction very precisely but I would add just another element to that. Our type of Article 3 is a restrictive thing. We have gone before the board on a particular product. I do not want to paint an unfair picture. Sometimes it is more than one product but let me say, a very limited number of products. Article 4, that the European Community and the Americans use, covers the whole range of textile trade right through fibres, fabrics and garments.

Senator Connolly: Agreements under Article 4 anticipate problems and try to prevent them from happening.

Mr. Brady: That is right, sir.

Senator Connolly: The procedures under Article 3 are designed to deal with cases where damage has occurred as a result of a flooding of the market, and leading to the disruption of the industry.

Mr. Brady: Precisely. I visualize Article 4 as a textile treaty putting some order into the trade between the nations involved.

I would just like to complete the record here by reading into it a statement by Mr. John Hammerick, the president of the American Textile Manufacturers Institute, which appeared in a publication entitled "Women's Wear Daily." The issue is dated February 2, 1976 in which he noted that the United States was currently negotiating multi-fibre arrangements with some 50 countries. This is the extent to which they do negotiate these types of forward looking arrangements.

I believe that is the background to our recommendations.

Senator Desruisseaux: Excuse me, Mr. Brady, but when these negotiations go on, do they go on with the countries getting together, or is it done individually with a country?

Mr. Brady: They do them on an individual basis, generally speaking, although I think there are some trend-setting agreements. For example, if they negotiate for a long time with Japan, they will have a master agreement with Japan and then a large amount of that is transposed into an agreement with Taiwan, Hong Kong, Singapore and so on. It is rather like a labour agreement where you get some outfit that is the trend setter and the pattern follows on through. Therefore, the Japanese agreement is something like a cornerstone and, once that is set, many of the terms are transposed into other areas.

Senator Connolly: Surely most of the agreement would have very many common clauses, would they not?

Mr. Brady: Yes, sir.

Senator Connolly: The conditions they are intended to deal with are the same in many points and would be the same for all countries.

Mr. Brady: It really is the coverage at that point. Some country may not be making the more modern fibres, so you would not put that into the agreement. Essentially, the form is the same but the substance may vary from country to country.

Senator Connolly: You say Americans are currently negotiating or have negotiated some 50 agreements?

Mr. Brady: Yes

Senator Connolly: How many countries had Mr. Healey listed in his speech in the House? Do you remember off-hand. It seemed to me to be about 10 or 12.

Mr. Brady: Ten or 12.

Senator Connolly: So, they have a long way to go.

Mr. Brady: Yes. However, the community is negotiating with a great number, and they negotiate as part of the Community at the present time. The Community is what, 17 or 18 of the key countries. They did mention they were negotiating with the state trading countries. So in that listing it is probably closer to 20.

Senator Connolly: Let us be fair to the Canadians. We do not know how many countries we have agreements with

or how many countries we are negotiating with. Perhaps the target is not 50, as it is with the United States. Is it 12, as it is with the Community?

Mr. Brady: I think it is hard to put a precise figure on it but I would say if you took 15 of the very key exporting countries that export to Canada, you would be covering a fair amount of the trade. I do not want to be pinned down to a number but I think it is 15 or so of the key countries.

Once some of these key countries were locked into place, it should not be too difficult to come along to another country, who might not be on that original list, and say "Look here, we have this type of an agreement with 15 of the major exporters, we believe we should be able to negotiate a similar agreement with you."

Senator Connolly: Could you say, Mr. Brady, how many you think we might have now?

Mr. Brady: I think we have Article 3 type agreements with probably 10 or 12 countries at the present time.

Senator Desruisseaux: Are those done through GATT?

Mr. Brady: Yes, under the international agreement in textiles, which is under the auspices of GATT.

The Chairman: Mr. Brady, would you care to speak to your recommendations?

Mr. Brady: Yes, sir. Our recommendations, in effect, are:

That the provisions of the Textile and Clothing Board Act, 1971 R.S.C. Ch. 39, be amended to provide an enlarged jurisdiction for the Textile and Clothing Board to examine and recommend if deemed advisable, the negotiation of global and comprehensive, long term (5 years) quotas covering textile fibres, yarns, fabrics, products and garments. The enlarged jurisdiction should permit the Board to recommend such quotas as a means to eliminate real risk of market disruption as provided for in Article 4 of the International Arrangement on Textiles.

In other words, the way the act reads today, you can only end up with an Article 3. We would ask that the act be amended to take into account this concept of eliminating the real risk and getting these wider bilateral agreements.

Senator Cook: Would it be fair to say that under agreements negotiated under Article 4, the U.S.A., the U.K. and the other countries have the means of policing the carrying out of that agreement by the other side?

Mr. Brady: They have the means of policing, but also it provides this forward framework in terms of trying to create the investment climate.

Senator Cook: It is rather difficult for the other party to the agreement to break it?

Mr. Brady: Yes, sir.

Senator Cook: On the other hand, it is rather easy for the other party to the agreement, negotiated under Article 3, to break it?

Mr. Brady: Well, under Article 3 it is possible, at times, to break it, but my concern with Article 3 is that it is looking at an historic situation and it is after the damage is done; it is after the fact. I am more interested in Article 4, where you are going to take a look at a forward-looking situation.

As far as concerns the transgressions of the agreement, I think all the other means that you gentlemen were talking about this morning are still there, and we would hope they would still be there, and we would hope that they would be applied in a vigorous manner. However, the concept of the agreement is to get something into a forward-looking framework, a known situation, and then obviously the investment dollars which we need would be much more attractive to the industry.

Senator Connolly: We want to know as much as we can about that first recommendation, Mr. Brady. At the present time there is nothing to prevent an Article 4 agreement being made by Canada with any of these countries. What you are seeking to do here is to provide a forum which might require the authorities to do it after the board finds that they should. Is that so?

Mr. Brady: Require or at least stimulate—preferably require. I agree with you, senator, that there is nothing in the legislation preventing an Article 4 agreement. It is sanctioned under the international arrangement, and it is just a policy question.

Senator Connolly: Have we ever had one?

Mr. Brady: I believe there was one isolated case dealing with one fabric with one of the state trading countries.

Senator Connolly: Surely it is the obvious way to go, is it not?

Mr. Brady: We certainly think so. We just cannot understand the reluctance to use this vehicle. It is there. Of course, the board cannot really recommend an Article 4 at the present time, because it has to look at injury or threat of injury.

Senator Connolly: I understand that.

Mr. Brady: So at least as a starting point we would like to give the board that authority. Then the board could say, "We will look at our textile trading with Taiwan or—" well, pick a country.

Senator Connolly: Mr. Brady, it might be helpful to us, bearing in mind your legal background, if you could supply the chairman with a proposed amendment to the textile and clothing board that would achieve your purpose. You could think about it along with some of your associates in order to make sure that it is comprehensive enough to achieve your purpose.

Mr. Brady: I would be happy to try to provide such an amendment.

Senator Macnaughton: Surely what you are striving for here, Mr. Brady, is to have the emphasis placed on risk versus injury.

Mr. Brady: Very much so, senator. Reasonable risk.

Senator Cook: That would not come about by a change in law but by a change in government policy.

Mr. Brady: I think there are the two aspects. If this amendment were provided, it would be an indication that there was a change in policy to allow this basis to flow therefrom.

Senator Laird: Do you really mean a change in policy or a change in the administration?

Mr. Brady: I think we need both. With the will there is enough there today. If we achieved this amendment it would give the board this enlarged jurisdiction and I think it would be a clear indication of a swing in policy.

Senator Laird: Then you disagree slightly with Mr. Armstrong who, in effect, said the machinery is there if it is used.

Mr. Brady: I don't think I disagree with him. Maybe I go a step forward and say, "Let's get a newer model of that machinery."

Senator Connolly: This gives the board an initiative it lacks at present. That answers Senator Laird's point that, as Mr. Armstrong said, at the present time you have provision in Article 4.

Mr. Brady: Yes, sir.

Senator Connolly: It is not being used, though. Article 4, if it is signed by Canada, must be a statement of Canadian policy, but if the policy is not being implemented, then it is not much good to you.

Mr. Brady: That is right.

Senator Connolly: What you are now suggesting is a further change to the Textile and Clothing Board Act which would give the board the authority to make an order saying that bilateral agreements should be made with specific countries under Article 4. Now it is up to the initiative of the department. What you want to say is that that initiative should be moved by the board and under an order.

Mr. Brady: Precisely, sir.

The Chairman: Surely what you mean, senator, is that the function of the board would be to recommend, not to make an order.

Senator Connolly: Of course. It is obviously a little too strong to say that the board should order the government to do something.

The Chairman: And if the board could make an order, where would the minister come in?

Senator Connolly: That is right.

Senator Cook: With all respect, Mr. Chairman, I do not think it is a matter of legislation. I think that is clear from the evidence of Ms. Pestieau, the charming young lady who was before us on the 18th last. I do not wish to misquote her, but, in effect, she said that Canada was pretty well the only country which went along under Article 3 instead of Article 4, and that that was government policy. Four reasons were put forward to explain the Canadian government's preference for Article 3, including "its basic free trade option, its desire to assist the developing countries, its fear of retaliation against Canadian exports, and its desire to keep domestic producers on their toes." Whether or not those are good or bad objectives, Ms. Pestieau went on to say:

However, I believe that we have made an effort, as it were, in the last few years, being almost the only country to use Article 3 agreements and apply the ITA really as it was negotiated. Having made this experiment, in my opinion maybe we should review the results.

Basically it comes back to Canadian government policy. The machinery comes afterwards. The point is that with respect to the Canadian government policy for which the four reasons were advanced, are those reasons valid and strong enough to justify the possible gradual throttling of the textile industry?

The Chairman: In other words, as a matter of policy the government announces that the difference which has existed in practice as between the announced national policy and the way in which it has been carried out has not worked out.

Senator Cook: Exactly.

The Chairman: And until such time as it does, the government is going to keep tighter control.

Senator Cook: And all these subordinate agencies of the government will have no effect so long as the government policy is to go under Article 3 and assist the emerging countries and so on.

The Chairman: This is only one man's view, but I think we should give the board more authority but in line with government policy.

Senator Cook: I agree.

Senator Connolly: I was not here when the young lady gave her evidence, Mr. Chairman, but I am impressed with the statement she made, which Senator Cook has just read from page 76:11, where she said: "Having made this experiment,"—having to do with Article 3 agreements—"in my opinion maybe we should review the results." Perhaps we are reviewing the results here, Mr. Chairman. I believe the witnesses we have had heretofore and today have said that these results are really not satisfactory, and that is why Mr. Brady is urging that some new approach should be made.

The Chairman: We can use all kinds of words, senator, but the real kernel of this thing is that government practice has got out of line with its announced policy.

Senator Hays: You mean, as far as administration is concerned.

The Chairman: Yes. And we have to get it back on the rails.

Senator Cook: We have to take a broad view, and not try to fix things up with a band-aid here and a band-aid there. It is a question of government policy.

Senator Hays: Mr. Chairman, Mr. Brady is discussing nearly all of these four points, recommending changes in policy in so far as the textile industry is concerned. When he says, "Well, we want 65 per cent or 70 per cent instead of"—I think you said 50 per cent, Mr. Brady?

Mr. Brady: Roughly speaking. It was less than 50 per cent.

The Chairman: But, you know, Senator Hays, that is not the way you present it to the government.

Senator Hays: Well, I am on the side of the women, you know. I do not know what the price of clothes would be if you had 100 per cent.

The Chairman: Senator Hays, you tell them what the problem is. If you go in and talk to a minister—and you

have had some experience on that—and you just tell them, "This is what you have to do," it is a bad start.

Senator Hays: Well, we are here dealing with an industry that apparently needs this protection. If you look at the first item in each section of the list they gave us, you will see that it deals with the protection of cotton. We do not grow cotton. As a matter of fact, I asked a question the other day as to what raw products we do have in Canada, and we have, of course, the by-products of the petroleum industry, but having said that, that is about the end; all the rest we import. We are not like the United States with regard to cotton. They do not have to import cotton. I suppose they are net exporters of cotton.

Mr. Brady: I do not think those represent rates on raw cotton; that is, the fibre. They represent the rates for cotton yarns or fabrics. They are at the manufactured stage at that point.

Maybe I could say something about your comment on price, if I may. I think other witnesses have said this, but I will reiterate it. We have had a tremendous price record in the textile industry in Canada. Over the last decade our prices have increased by an average of about 4.5 per cent per annum, as opposed to about 6 per cent, let us say, in manufacturing in general. I do not have it with me today, but the conference board has produced a pretty authentic statistical paper that shows that our prices are still some 20 per cent below those of manufacturing in general.

I think that one point that often gets lost is that we in the domestic industry really constitute the stability of the price market. Other people price off us. In 1973 and 1974, when there was a shortage of textiles on world-wide markets, in very many cases textile products which were highly competitive went through the roof price-wise. Where previously we had a fabric selling at 50 cents a yard, perhaps the competitive product came in at 45 or 48 cents, which is fair game, because a lot of people will buy from you for quality and service, but at the time of the vast increases in the price of raw cotton, when cotton fluctuated from 60 cents to 90 cents, and there were huge wage increases, and so on, where we may have gone up, to, say, 60 cents, the corresponding product from offshore often went to a dollar or \$1.04. Opportunistically, they could get it somewhere else. I think that if the consumer were left without us, really, providing that price stability, they would not fare as well as they do.

Senator Hays: Take wool, for instance. Take the raw wool that we produce in Canada. We ship it to England. You people do not buy it. We ship it to the United States, also.

Mr. Brady: I would not want to comment too much on the wool industry.

Senator Hays: I have a thousand sheep, and the only market I can get for wool is the United States. You people will not buy it at 20, 22 cents a pound. Most of the time our wool goes to the United States or England. I do not know what they make out of it. Rugs, perhaps.

Mr. Brady: There is a considerable wool worsted industry in Canada.

Senator Hays: These things make me wonder. Wool is sometimes 75 cents or 10 cents or 20 cents in the same year. I am talking now as a producer.

Mr. Brady: We have the same sort of spread in prices of raw cotton, from 30 cents to 90 cents.

Senator Hays: Well, we import wool from Australia, and cotton from the United States, and I suppose in the future we will be importing artificial fabrics, too.

Mr. Brady: No. I think what is happening in that area is that there is less and less impact. The proportion of cotton used in the overall textile markets is getting lower and lower as a fibre usage, and the proportion of man-made fibres is increasing all along the line. Today, if I were to make a guess, I would say that man-mades represent probably 40, 45 per cent of the usages, and the man-mades are fibres made in Canada from the oil and petrochemical industries.

Senator Hays: If you wanted to buy a wool carpet today it would probably come from England or the United States.

Mr. Brady: There are many sources of buying wool carpets.

Senator Hays: We have no distributors in Calgary, so we do not sell them any more. We have to order them from England.

Mr. Brady: If there are any representatives of the wool industry here, perhaps they would stand up.

Senator Hays: I am speaking of Jordans and Simpsons-Sears, and people like this. Go down and ask them.

Senator Desruisseaux: These people that have importers' licences go there and buy at low prices, in most cases.

Mr. Armstrong: Perhaps, Mr. Chairman, I may comment on Senator Hays' questions. The Canadian carpet industry is a very strong, viable industry, supplying something like 80 per cent of the carpet market.

Senator Hays: Wool?

Mr. Armstrong: Yes, wool. They supply Harding Carpets, Celanese of Canada, and so on. Blackwood Morton and Company in Ste. Therese, are based entirely on wool, as I understand it.

Senator Cook: They sell for cash.

Senator Hays: I do not understand it.

The Chairman: Senator Hays, we have dealt pretty completely with what Mr. Brady calls his recommendations. Why do we not treat them as suggestions from him, as a guide to what we should keep in mind in attempting to work out a solution to his problem. Getting into the details of the movement of particular goods would not be my idea—though of course, I am only one person—of the proper way to make a presentation, either under section 22 of the Customs Act, or under the Export and Import Permits Act. I would rather stick to the solid, basic principle that the industry is not being properly looked after.

Senator Hays: I am sorry, Mr. Chairman, but I get quite concerned about this. I think it is very important that the government should determine what portion of the textile industry we should have in Canada, and I kind of agree with the government. I do not agree with the administration, if it is bad, but I agree with the policy.

The Chairman: Well, when we have heard everybody—and I do not want to be too broad in my statements at this

moment because there may be another side to the question—at least there may be explanations, or we may do some convincing.

Senator Connolly: Just on that point, about another side to the question, I come back again to Senator Cook's intervention, because I think it is germane here. If it is not germane, however, please rule me out of order, Mr. Chairman.

On page 95 of the booklet produced by Mrs. Pestieau, in the footnote at the bottom of the page, she says this—and Senator Cook has put it on the record, but I think it is important enough to put on the record again:

Several reasons have been put forward to explain the Canadian government's preference for Article 3 agreements, including its basic free trade option, its desire to assist the developing countries, its fear of retaliation against Canadian exports, and its desire to keep domestic producers on their toes.

I would think that when we have the officials from the department here these, if they are valid, are the reasons they will be urging, namely, that we stay with Article 3 agreements, and not go to the first recommendation made by Mr. Brady.

Perhaps, before the evidence is closed, some of these witnesses could give us some comment about the various points that are made in this footnote.

Mr. Brady: I do not know if you would like any comment from me, but I certainly do have some thoughts on these points.

Taking them in reverse order, the first one is, "its desire to keep domestic producers on their toes." I think it is already on record, but I would like to reiterate that even at the time the policy was instituted it was very clearly stated that we are an efficient industry and that we are as modern and up to date, and produce as well, as anybody in the world. This was in a background study by three very important consultants, and it was a study commissioned at the time by the Department of Industry, Trade and Commerce.

I think if you read through Ms. Pestieau's report, you will find that she confirms—I cannot pick it out at the moment, but I think it is on one of the first pages—the efficiency of the industry.

"Its desire to assist the developing countries." Certainly that is a very valid desire, and I think all we are saying—and I would like this to be understood in the context of the recommendations—is that we are not tampering with that, so to speak. What we are saying is that we are being asked to do a little bit more than our share when we are down to about 40 per cent of our market. When the Americans are taking about 10 per cent and the EEC about 20 per cent, we think it is just getting a little weighted down. But the total effect of these recommendations would not be any roll back from this. If, through whatever authorities exist, we could go tomorrow morning with your blessing and with the government's blessing and say, "Here are your recommendations *in toto*," it would not be a roll back of one yard or one pound or even one garment of this. You would still be looking at half a billion pounds or the equivalent of two billion square yards of fabric coming in from all these sources. It would be 100 yards of fabric per annum for every man, woman and child. All we are saying is that there would be some growth there. We have been cut off from growth, and all we are saying is to give us a chance to

get back at some of this growth and there will still be a tremendous opportunity for imports from all these sources.

Coming back to the point of keeping us on our toes, we are not asking that something be done vis-à-vis the Americans or the EEC in the normal course of trade. However, if there were a recession and if they started dumping things in here under cost, it would be a different situation and there would be other remedies. But in the normal course of trade we say we can take them on with normal tariff protection. So we would be kept very much on our toes there. But we would hope to regain a little ground over a period of time and this figure, which is no magic figure and would be difficult to attain, would take us four to five years to get to that level and even then with market growth we might see some improvement in absolute levels. If we were to walk out of here tomorrow with everything we are asking for we would still not be stopping substantial amounts of imports of fibres and fabrics and garments. They would still continue to come in insubstantial amounts. There would still be some growth for them. But we are saying to you to set up something so that we too can look forward to some of that growth.

Senator Connolly: And that would not be doing anything different from what the British are doing and what the Americans have done.

Mr. Brady: That is right.

Senator Connolly: Any comments on the other points?

Mr. Brady: Well, on "global" and "comprehensive," we have defined "global" as a series of bilateral arrangements negotiated between Canada and a number of countries, so we are talking about sitting down and negotiating. We are not clubbing anybody over the head, but we are talking of sitting down and looking at the textile trade. By "comprehensive" we mean covering the gamut of textile trades from fibres, yarns, fabrics, products and garments. Now I want to emphasize garments because the erosion that has happened in the garment trade—and I am sure my garment confreres will be telling you more about that later—is beginning to happen in their market, and so garments must be in this package. If they are not in this package, since they are our customers, then it would be that much more uncomfortable for us.

Senator Hays: May I ask another question which is not related in your opinion, Mr. Chairman, to the whole exercise? What percentage of the total industry is centered within 300 miles of Montreal?

Mr. Brady: Approximately 60 per cent.

Senator Hays: Where is the rest?

Mr. Brady: Ontario has about 25 per cent, and then in Nova Scotia . . .

Senator Hays: Well, I said within 300 miles of Montreal.

Mr. Brady: It would still be about 60 per cent.

Senator Hays: Have you ever thought about the textile industry decentralizing a little? Have you ever thought about doing more manufacturing in the west? What percentage does the west have?

Mr. Brady: I think there is a good concentration of the garment industry around Winnipeg and Edmonton.

Senator Hays: What percentage?

Mr. Brady: I would not know in overall terms what the percentage is, but there are some substantial firms in the Winnipeg area. Perhaps some people who are more familiar with the garment industry would be able to give you more information on that. But we have a number of garment clients in Winnipeg and in Edmonton. On the west coast there are a couple of small woollen mills but in percentage terms it is relatively low.

Senator Macnaughton: Mr. Chairman, I would not like this intelligent and high-priced lawyer to get away from this committee . . .

Mr. Brady: I will accept the first part of that statement, Mr. Chairman.

Senator Macnaughton: I think you agreed in principle to attempt a draft of a recommendation to assist this committee. That is, to summarize your recommendations in a proposed amendment.

Mr. Brady: Yes, senator.

Senator Desruisseaux: Mr. Chairman, referring to the information we have on page 12 about imports and exports, there is a table showing imports and exports for the years 1969 to 1974. Do you have the figure for 1975?

Mr. Brady: The figures for 1975 are not available yet, but they should be available fairly shortly. I do not think there will be much of a change. You will still be looking at an adverse balance of trade amounting to about \$1.1 billion.

The Chairman: Mr. Brady, I think we have given your proposals a fair shake. So, unless you have something more to add, I would suggest that we move on to the next witness.

Mr. Brady: Yes, I think you have, Mr. Chairman. I will prepare a draft amendment and submit it to you.

Senator Desruisseaux: Before you leave, there has been an indication that the textile industry has been receiving special treatment from the Government of Canada by way of some form of protection by the board. I assume that you would not agree with that.

Mr. Brady: There have been a number of elements, but I would not say that we are getting special protection from the board. If you put it in a time-frame, then it comes down to the fact that when the policy came into effect in 1970—and the figure is in Ms. Pestieau's book and I cannot put my finger on it right now—16 per cent of the imports were under some form of restraint. At the present time 6 per cent of imports are under some form of restraint.

The Chairman: Thank you, Mr. Brady.

Our next witness is Mr. MacPherson who is Director, Government Relations, Celanese Canada Ltd.

Mr. G. P. MacPherson, Director, Government Relations, Celanese Canada Ltd.: Honourable senators, on three successive Wednesdays you have heard certain aspects of the Canadian textile industry described by Mr. Armstrong and senior executives of this industry. It has fallen to me to sum up the principal points which the industry has attempted to make in the course of this inquiry, and I shall attempt to do so succinctly in the minutes ahead.

Ours is an important industry. Mr. Armstrong, in his opening statement two weeks ago, emphasized the impor-

tance of our industry saying that the textile and clothing industry as a whole are employing directly one out of every eight persons in manufacturing in Canada, and this is before counting the multiplier effect of employment in services and supply industries. Secondly that the value of production of our industry is roughly \$5 billion annually of which approximately \$1.25 billion is paid annually in salaries and wages.

The capital investment in the primary textile industry alone exceeded \$240 million in 1974. Textile prices have increased over the last ten years but at an average annual rate of only 4.5 per cent as compared with 6.4 per cent for all manufacturing. Productivity in our industry has increased at an average annual rate of 5.1 per cent which is substantially higher than the average increase in productivity generally.

Mr. Armstrong's second point, which has been dealt with by many witnesses, was that although Canadian consumption of textiles and clothing is growing, an increasing share of the total is being supplied by imports in various forms from foreign countries to the point where Canadian textile imports per capita are 45 times as great as those in the United States. Putting it another way, Canada by 1974 was running a negative trade balance of more than \$1 billion annually in textile and clothing trade.

The second salient point seemed to be that this is a changed industry. Several speakers illustrated how the industry has changed. Mr. Côté pointed out that man-made fibres now account for two thirds of total Canadian textile consumption and that this consumption of man-made textiles is expected to double in the next 10 years. He characterized the main business of the textile industry as the transformation of chemicals into consumer products, notably clothing and noted that the vertical dimension of the textile industry has been extended to include new elements, such as man-made fibre producers and the chemical producers who supply them. It is no longer only sheep growers and cotton farmers who provide the principal inputs to the industry; it has become the industry itself.

Mr. Newall described last Wednesday the potential for Canadian production of petrochemicals for fibers. He referred specifically to acrylonitrile from propylene, obtained at Sarnia and terephthalic acid, which is derived from zylenes from crude oil.

Senator Hays: Did you give a percentage, or was it last week that it was mentioned that five per cent of the petroleum industry is used for this?

Mr. MacPherson: Mr. Newall said last week that all of the consumer end products of petrochemicals, of which synthetic textiles are a part, would be equivalent to approximately 5.4 per cent of our total consumption of crude oil and natural gas for all purposes. He said the proportion of our total consumption required if we were to make all of our man-made textiles from Canadian oil and natural gas would be less than one per cent; I believe it is roughly one half of one per cent.

The next point I wish to emphasize is that all tiers of this multi-tiered industry are interdependent. Each tier depends on its customers and suppliers; the fabric manufacturers depend on the clothing industry, their customers; similarly, the fibre producers depend on the fabric manufacturers and, indirectly through them, on the clothing manufacturers as well.

We are all in the same boat in this industry and it is because of this strong interdependence that the piecemeal approach to import restraint seems particularly inappropriate. It is as if our government were preoccupied with the treatment of several holes in the stern of the boat while ignoring dozens of others amidships and forward.

Next, the industry makes a great profusion of products for sophisticated consumers. In this connection the senators present two weeks ago will recall the continuous folder of samples which Mr. Perowne provided from Dominion Textiles to illustrate the point. The sample stretched along two sides of the entire walls of this committee room. You may have noticed a second folder, which remained unopened due to the shortness of time.

This industry has much potential. The point was made by Mr. Côté that Canadian consumption of textile products will increase strongly. Consumption of textiles based on man-made fibres will double in the next 10 years, he said. Textiles of natural fibres are expected to hold their own. In supplying these needs, our industry copes with many adversities. Many speakers have referred to these. Mr. Perowne referred to spillovers from the United States, particularly in the course of recessions. Mr. Fyfe cited competition from state-directed marketing agencies, such as those in eastern Europe and China. Many speakers referred to imports from low-wage economies. Our industry constantly competes against imports in all of these forms. In doing so we face the additional disadvantage that the Canadian dollar is higher in relation to the U.S. dollar and certain other currencies than it was 10 years ago, a point made in one of the briefs. It was also noted that our industry lacks the easy advantages of scale. Our industry is full of ingenious production managers at every level who cope with a diverse product range and turn them out at low cost.

Mr. Perowne pointed out as both a source of pride and an economic hurdle the fact that Canadian textile wages are considerably higher than textile wages elsewhere. We fight these battles without effective help. Mr. Taran referred to the long process required to precipitate, as did Mr. Brady this morning, any import limiting action by government and to the frustrations we all feel with respect to the leniency of our government in policing the few import restraint arrangements which are actually in place. Mr. Côté indicated that the policy as it appears to be implemented is neither relevant nor reliable as a basis for the investments which need to be made in our industry. Mr. Bruck last week indicated his disillusionment and Ms. Peastieau with some surprise reported that little confidence appears to exist between the industry and our government. Of course, Mr. Armstrong noted at the outset and again today that only six per cent of all textile and clothing imported into Canada is subject to quantitative restraint in any form. To put that in perspective, he said that in the United States the comparable figure is 70 per cent.

Senator Hays: You say six per cent restraint; what about the tariffs? Are they not restraints?

Mr. MacPherson: My reference was to limitations respecting the volume of imports which may enter; colloquially, quotas.

Senator Hays: Yes, it was just a little misleading to me, because you do receive this protection by way of tariffs.

Mr. MacPherson: We do, indeed, like every other country, have a tariff applicable to textiles and clothing.

Senator Desruisseaux: Are there cases of which you know in which you have to fight subsidized exports from other countries to Canada?

Mr. MacPherson: There have been instances in which we know we face subsidized imports to Canada, but my personal opinion is that these do not comprise a large proportion of the total import problem facing us. These factors lead to problems and, consequently, mills close, few new mills are built and the industry's share of the total market declines. Mr. Hackel two weeks ago described some of the human ramifications which he witnessed recently in phasing out operations at Louiseville. If I may quote two sentences, they are as follows;

We have not been able to convince people to leave the town of Louiseville. They do not like to leave the town where they have spent most of their lives, and in many instances where generations of their families have lived. They will travel from one town to another, but they will not relocate elsewhere.

We have found, with a small community, that the idea of recycling a large number of people into another industry simply does not work, or, shall I say, it has not worked during these past many months.

Senator Desruisseaux: Do you know of cases in which it has been tried in Canada?

Mr. MacPherson: The so-called recycling of textile workers whose jobs have disappeared has been, indeed, attempted in various instances. I am not expert in assessing the success of these efforts. An aspect other than the human aspect is the investment forgone, the plants which have not been built. Mr. Newall among others referred last week to an expansion of a fibre plant which has been suspended and the opportunities to make petro-chemicals on a world scale to supply the fibre industry in Canada which are apparently sitting on the table untaken. I will not seek to embellish what Mr. Brady has just recommended, but I will simply say very briefly that we seem to need two things: the comprehensive arrangements of the type described in Mr. Brady's recommendations, which, as the committee noted, are in force in most parts of the industrialized world; and secondly, and what is probably most important, a rededication on the part of government to the practical goals of the textile policy as it was originally conceived, and to the proposition that an efficient textile industry can and should remain as a permanent and vital factor in the economy of Canada.

Senator Laird: You are complaining like everybody else about administration.

The Chairman: Honourable senators, Mr. MacPherson prefaced his remarks by indicating that he was presenting in summary form what had been stated by the various witnesses on the important questions up to this moment. I would not think there is much in the summary that we did not subject to questioning as we went along. Is that not right, Mr. MacPherson?

Mr. MacPherson: I believe that is so.

The Chairman: So I would doubt if there are many questions that would arise on this. The summary will be useful, because it will, in concise form, summarize the points made by the various witnesses. But other than that

unless someone wishes to ask questions, I do not think questions are needed.

Senator Desruisseaux: It is a matter of clarifying one point that we hear every now and then about import licences and the assertion that some manufacturers, in an attempt to carry on at a profit, have had to go into import licensing and import for themselves goods that were competing in their own field. Is that correct?

Mr. MacPherson: I understand that manufacturers at various levels of this trade occasionally have recourse to imports; but in those few areas where import licences are required, they serve the purpose not of restricting the quantity of imports but only in watching the volume of imports as they come in. It is a little like having one more porthole on a sinking ship. You have a better view of the disaster, but it does not affect the outcome.

Senator Hays: Mr. Chairman, I asked a question of Mr. Brady on the regional distribution of the industry. I have those figures now. They are Quebec 65 per cent, Ontario 27 per cent, Manitoba 6 per cent, British Columbia, Alberta and Saskatchewan 2 per cent; 92 per cent is East of the Great Lakes and 100 per cent of the raw materials come from the West. That is what I was trying to bring out.

The Chairman: We will have all that available.

Mr. MacPherson: Mr. Chairman, if I might add something, I believe that our own fibre facility at Edmonton would not have been included in the figures which have just been cited. I refer to the plant operated at Edmonton by my own company, which is the one referred to earlier when describing how British Columbian wood pulp and Albertan butane turned into textiles into the Eastern Townships.

Senator Walker: Mr. Chairman, I have been away welcoming our new leader in the caucus and I apologize if I missed this point. What effort has been made to get a higher tariff? Has that been gone into here? If not, is it going to be gone into, and, if so, will the minister be called at some time in the future?

The Chairman: There is one further question: would it do any good?

Senator Walker: You mean, to talk to him? That is a good question. Perhaps, Mr. MacPherson, you will give us the answer.

Mr. MacPherson: Senator Walker, I am not aware of any request having been made in recent times for an increase in any of the textile or clothing tariffs, and no such increase was included in Mr. Brady's recommendations. I would suggest, personally, subject to correction by my colleagues, that we do not perceive this as the area of solution which we would desire or which would parallel the actions of other countries with respect to these problems.

Senator Walker: You differ from the Americans in that respect, do you not?

Mr. MacPherson: I believe not. I am not aware of American efforts to actually increase the tariffs.

Senator Walker: Their tariffs are higher than yours.

Mr. MacPherson: In quite a number of areas. In comparing the two tariffs—there are several bases, as you know, on which they can be compared—the difference is there.

Senator Walker: Anyway, you have considered it and you would know your own interests. Thank you very much.

The Chairman: Thank you.

We will now hear from the Canadian Shirt Manufacturers' Association. Mr. Coyne, who is counsel, will present the panel.

Mr. John Coyne, O.C., Counsel, Canadian Shirt Manufacturers' Association: Thank you, Mr. Chairman, there are a number of representatives of the Canadian Shirt Manufacturers' Association here this morning and perhaps I should introduce each of them in turn and ask them to rise in order that they might be identified. On my immediate right is Mr. Bill Wilkinson, who is Vice-President of the Arrow Company, who is President of the Canadian Shirt Manufacturers' Association. On his right is Mr. Bill Cline of the John Forsyth Company in Kitchener, and he is Vice-President of the association. Behind Mr. Cline is Mr. Max Kape, of Style Guild Inc. in Montreal, who is Immediate Past President of the association.

There are several others present in the room. For the record, Mr. Chairman, I would like to identify them also. From the Emprie Shirt Manufacturing Company Limited in Louiseville, Quebec, Mr. Marc Beland, who is also Secretary of the association. From La Chemise J.M.L. in Edmundston, New Brunswick, Mr. Jean-Marc Lafontaine; from Almo-Dante Manufacturing Inc. in Montreal, Mr. Harry Stern; and also from Style Guild Inc. in Montreal, Mr. Jacques Barsalo.

Mr. Chairman, the association has submitted a brief which is in your hands. What we propose to do this morning is to have Mr. Wilkinson, the President of the Canadian Shirt Manufacturers' Association, make a brief opening statement, following which we will be available for questions from members of the committee.

The Chairman: Mr. Wilkinson.

Mr. William Wilkinson, President, Canadian Shirt Manufacturers' Association: Mr. Chairman, our association has been following, with keen interest, the activities of your committee in relation to its review of Canadian textile industry problems. We wish to thank the committee at this time for the opportunity of presenting our views and also to congratulate the committee on its initiative and foresight in pursuing this all-important, complicated and critical problem. We feel the experience and views of our association will be most helpful to you.

Our industry is a very sensitive industry and one which is subject to import pressures. We have been working closely with the government since 1960. We have experience and first-hand knowledge of the development and introduction of the textile policy initiated by the Honourable Luc Pepin in 1970. We were the first industry in the secondary textile sector to be studied by the Textile and Clothing Board, and we have been subject to a yearly review since that study and have maintained a continuing dialogue with the government. We can therefore speak with some authority, based on many years of experience.

What, then, is our experience in connection with the textile policy and what are our recommendations for changes? In general terms, the textile policy was aimed at improving the profitability and competitiveness of the textile industry in order that it could compete in world markets on an international basis. If the industry is injured by

imports, or faces threat of injury by imports, measures of protection can be adopted by the government to afford the industry sufficient time to rationalize its production, modernize its factories in order to be completely viable and be in a position to compete in world markets. Any measures of protection, such as marketing schemes to ensure import pressures are spread evenly, or import quotas, are put in place for a period of 12 months and are subject to an annual review.

The underlying strategy behind the textile policy when it was formulated was based on several premises and assumptions, which I should like to review at this time. The first assumption was that an increase in automation would reduce the labour content portion of fixed costs, thereby making the industry more competitive. This was to be followed by rationalization of lines and a major emphasis on style and fashion merchandise. These two changes were to be supported by above average service to the Canadian customer and also the development of export markets to sustain total production.

All of the problems the textile industry has faced since 1971 have had to be administrated within the framework of this policy. This has been most difficult because the premises and assumptions made when the textile policy was established have not turned out to be true; on the contrary, they have turned out to be false. In many ways, it could be said that the people administering the textile policy have been handcuffed by the limitations of the policy. This, of course, could not have been foreseen in 1971.

In 1971, both the government and the industry had great hopes for automation. Our experience in recent years, however, indicates that automation in the shirt industry has not reduced labour costs substantially. It has taken some of the skill from operations, making it easier to train people, but the high initial cost of the equipment and the high maintenance costs have offset any potential saving. The fashion and style advantage initiated by the domestic industry was short-lived and has not produced any lasting advantage.

As Marshall McLuhan has so often stated, we live in a global village. There are no more secrets. It is not uncommon today for a buyer to be exposed to the markets of England, France, Germany, Italy, Japan and the United States during the course of any one calendar year. It is not uncommon for a Canadian buyer to be exposed to those markets, or a buyer from Europe to be exposed to all those markets. Any new style innovation in any of these markets is copied immediately. The importer can take the idea to the Orient and order fabric in Japan, shirts in Korea, Hong Kong or Taiwan, and have them delivered shortly thereafter. The delivery time can be further shortened if shipments are made by air cargo.

The textile policy was designed to create a base on which to establish a strong domestic industry, an industry which would be competitive with imports through efficiency in production and clever imaginative stylings. This has not been the case. There is absolutely no way the domestic industry can compete with wages of 20 cents an hour in the Orient without some protective measures. The position of our association is set out in the recommendations made in our brief. Basically, we have recommended a policy that would provide the domestic industry a measure of protection for at least five years at a time. This would eliminate the yearly review and encourage capital development.

Many of you have been in business and know what is involved in making a major capital commitment. Imagine

yourself the president of a large shirt company that has just defined a great market potential in a segment of the market in which you are not currently selling. Would you be willing to commit a major capital investment to such a project knowing that import controls could end in 12 months? Absolutely not.

Let me remind you, such a project would create jobs, which are vital in today's economy. Our association is proud of its employment record and what our factories mean to the people they employ. Some of my colleagues will expand on this aspect later.

The other key recommendation that we make for the domestic industry is that we be assured 65 per cent of the total domestic market. We need that much of the market to be efficient. The smaller our portion of the domestic market, the smaller our contribution to employment and the more inefficient we become.

Finally, we feel very strongly about duty-free access for types of fabrics available on world markets that are not of a kind made in Canada. These fabrics are essential if we are to provide the sophisticated Canadian consumer the type of style he demands. There are several precedents, of course, for such action, one being Thai silks which come in duty free. Also, textile machinery and parts of a kind not made in Canada come in duty free.

Honourable senators, that sums up, in capsule form, the position of our association. The members of the association present today represent a broad cross-section of our industry and we look forward to discussing with the committee our views and recommendations.

Senator Laird: How can we deal with your recommendation concerning free access to world fabrics? What can the government do about that?

Mr. Wilkinson: There are certain categories of fabric which we use on which there is a duty. It would be simply a matter of making those categories of fabric duty free, which would involve a change in the Customs Tariff. The Customs Tariff, of course, is under review at this moment in the negotiations taking place in Geneva, and we have made a similar recommendation in a brief to the Tariff Committee.

Mr. Coyne: If I might just add a comment to that, Mr. Chairman, I think this is a point which clearly arises in respect of the Customs Tariff provisions. I think the nature of the point is that despite the enormous selection of fabrics which was demonstrated to you at a previous meeting, there are many, many fabrics which shirt manufacturers, particularly in the fashion or style end of their businesses, as it is called, simply cannot obtain from Canadian sources.

It is inevitable that the Canadian industry cannot manufacture every conceivable style, colour and so on. The suggestion being made here is that there should be some technique built into the customs tariff whereby if a particular fabric of this nature is not available from a Canadian source it should not bear customs duty when it is imported from abroad.

Senator Laird: That is exactly what I wanted to get at. What mechanical means are you suggesting? In other words, you are suggesting no tariffs on these fabrics that you would like to import.

The Chairman: No. They are talking of fabrics of a class or kind not made in Canada.

Senator Laird: That is it. Is he or isn't he?

Mr. Wilkinson: Yes, it is very specifically of a class or kind.

Senator Hays: Are you talking about cotton?

Mr. Wilkinson: It might be cotton. We are talking yarn dyed shirt fabrics such as the honourable senator mentioned.

Senator Hays: I cannot afford \$25 shirts. Those are "Conservative" shirts.

Mr. William Cline, Vice-President, Canadian Shirt Manufacturers' Association: We are specifically talking about a class or kind of fabric not available to us in the Canadian market. We are proposing this access to world markets or the elimination of tariffs on fabrics made in Canada. We are proposing it on two-ply 80s or very fine yarns. However, the Canadian market is a very sophisticated market. The consumer in Canada demands a broad spectrum of fabrics. All we are trying to do is to be sure that as makers of garments we are able to provide the Canadian consumer with a broad spectrum of fabrics that he has grown to expect from us.

Senator Laird: That is what I am trying to get out of you. How, mechanically, do you accomplish this?

Mr. Cline: If the fabric is made in Canada we are not proposing to do this.

Senator Laird: That is the important thing.

Senator Hays: Are most of the fabrics used in shirts imported?

Mr. Wilkinson: I would think probably 60 to 65 per cent are imported.

Senator Hays: What proportion would not be imported? What fabrics do we have in Canada, again I suppose from the petroleum industry?

Mr. Wilkinson: We have woven fabrics in plain shades; we have them in prints, in dotted weaves; we also have a certain number of weave knits that we can buy in Canada, which are very popular in shirts.

Senator Hays: What about a shirt selling here for, say, \$17? What would that cost is one of these places like Hong Kong or Singapore?

Mr. Cline: I am not familiar with Hong Kong. I have just come back from Europe. I would think that a shirt selling for \$17 in a retail store in Europe is marginally higher priced than that in the Canadian market. In the United States I would think that the Canadian price and the American prices are very comparable retail.

Senator Hays: We are not having any trouble with them. We are having trouble with the Far East. What do they cost there?

Mr. Wilkinson: I can answer that question directly. That shirt landed in Canada would be probably \$11 or \$12 retail.

Senator Hays: After the tariff on it?

Mr. Wilkinson: After the duty.

Senator Hays: What would be the duty?

Mr. Wilkinson: It would be 25 per cent.

Senator Hays: You mean 25 per cent of the \$12?

Mr. Wilkinson: If it was a woven fabric, it would be 25 per cent.

Senator Hays: What would it be if it were cotton?

Mr. Wilkinson: That would be 25 per cent. If it was knitted fabric it would be 27.5 per cent. There is a higher tariff on knitted fabric.

The Chairman: Is not your problem the imported competition vis-à-vis Canadian raw material production that you use in the manufacture of shirts in Canada?

Mr. Wilkinson: No. Our major problem is import competition. Fortunately, there are import controls at the present time which have helped our association membership. We feel, of course, that the import levels are too high relative to the total market.

The Chairman: I gathered that with fabrics that are not produced in Canada but which you import, you are not at a disadvantage in selling those garments in Canada?

Mr. Wilkinson: No. The garments that would be made from those fabrics are readily available in Canada. Our experience has been that if the Canadian consumer wants that type of a garment he will buy it and pay additional money for it, because our price is higher when we pay duty for that type of fabric.

The Chairman: I am just trying to narrow down where your problem is.

Mr. Wilkinson: Our problem basically would be in the import area of the finished garments.

Senator Hays: What percentage of shirts are imported into Canada as finished garments?

Mr. Wilkinson: In 1974 it was about 40 per cent of the total market.

Senator Hays: That is, 40 per cent of all the shirts were imported?

Mr. Wilkinson: Right.

Senator Hays: Where would they come from mostly?

Mr. Wilkinson: They come from a wide range of countries, but the prime sources would be Hong Kong, South Korea, Taiwan, a few from Singapore and some others.

Senator Hays: Would we get any from China, or just through Hong Kong?

Mr. Wilkinson: Very little from China. There are one or two classes of goods from China, in terms of heavy flannel work-shirts, but that is really all the thrust from China to date.

Senator Laird: How about the United States?

Mr. Wilkinson: There is a certain amount of merchandise coming each year from the United States.

Senator Laird: That is the end product.

Mr. Wilkinson: Right. We look upon that as fair competition.

Senator Hays: Is there a duty on American shirts?

Mr. Wilkinson: Yes.

Senator Hays: What is the duty?

Mr. Wilkinson: Some at 25 per cent.

Senator Hays: So a Canadian pays 25 per cent more than his American counterpart for a shirt.

Senator Macnaughton: Do you have a problem with large merchandisers in Canada, the buyers of chain stores?

Mr. Wilkinson: I am not sure I understand what kind of problem you mean.

Senator Macnaughton: Surely the large chain stores in Canada import a great deal from outside of Canada for these sales that they put on, or do they reserve their purchasing for your industry?

Mr. Wilkinson: We are concerned about that, in that it fluctuates from time to time. Usually one or two of these major chains have a little larger import program than others. If all of them were to become involved it would be very serious to our industry, because the major department stores, as we pointed out in our brief, and also the chains, control a very large part of the retail business in this country.

Senator Desruisseaux: They also have import licences, and they send their men to Hong Kong to have Canadian shirts copied and reproduced, with guaranteed delivery here.

Mr. Wilkinson: Yes, they go through all those exercises.

The Chairman: On the question of imported finished products, which direction do you lean in if you have a choice, tariff or quota?

Mr. Wilkinson: We lean strongly to quotas. If the committee would care to look back to one of the Tariff Board hearings in which our association was involved, together with many of the other members of our industry...

Senator Walker: How long ago?

Mr. Coyne: In 1970 or 1971.

Mr. Wilkinson: I am referring to Tariff 144. It was pointed out by both the primary and secondary industries that, without a doubt, there was no measure of effective protection that could be made for the total industry through tariffs, because we are competing at such a disadvantage in total weight levels, and the only effective measure is some type of quota system.

Senator Hays: What percentage of shirts are manufactured in Western Canada? I hate to belabour this point, but I try to bring out a point at every committee I go to in the hope that everyone in the committee will be familiar with the problems.

Mr. Wilkinson: I do not have the exact figure but I would guess about 5 per cent to 6 per cent. There are one or two makers that are in Vancouver and there is a maker in Edmonton and there are several in Winnipeg.

Senator Hays: We can have the exact figure though?

Mr. Wilkinson: We can get that for you.

The Chairman: Are there any other questions?

Senator Walker: You are not worried about tariffs; all you are interested in at the moment is protection by way of

quotas, and that that protection should be rigidly enforced, is that correct?

Mr. Wilkinson: And be for a sufficient number of years to make it viable to invest money in the industry and get a reasonable return on it. At the present time we do have some protection but the industry is reviewed every year by the Textile and Clothing Board and there is always that measure of doubt regarding the next year.

Senator Walker: It is changed every year, is it?

Mr. Wilkinson: It is not necessarily changed.

Senator Walker: You have the threat of change.

Mr. Wilkinson: There is the possibility that change could be made.

Mr. Coyne: Mr. Chairman, I would like to add a comment, if I may. Essentially the position Mr. Wilkinson is describing is that the thrust of the brief is exactly the same as the textile industry. At the moment there is this yearly review and the Shirt Manufacturers' Association, as does the textile industry, takes the view that because these quotas are now examined on an annual basis, there is no assurance, for purposes of longer term planning of the business and that sort of thing, which would justify an element of stability in the business. They are, therefore, recommending that these quota arrangements or treaties or agreements, or whatever they are, be dealt with on a longer term basis. Specifically in the brief they mention a five-year basis which was the same period that either Mr. Armstrong or Mr. Brady mentioned this morning.

Senator Hays: If we had a prohibition against the importation of shirts, could the manufacturers here in Canada produce them all; and if they could, how much more would we have to pay above the present price?

Mr. Wilkinson: You are talking about a total prohibition?

Senator Hays: The manufacturers on one end say we would like 85 per cent and some say 65 per cent. What would happen if there was total prohibition, . . .

Senator Walker: A total embargo.

Senator Yays: —and our manufacturers were told to do all this.

Mr. Wilkinson: There are two parts to your question. Number one, could we produce them? I think we could produce 65 per cent of the needs right now. We would have to gear up to produce the rest because our industry has already been shrunk due to import pressures.

Senator Hays: What about the cost? What would it cost us?

Mr. Wilkinson: The costs would remain the same as they are now. We are a competitive industry. We are competitive amongst ourselves domestically and that competition would keep the price structure where it is now.

Senator Hays: Our manufacturers, therefore, could produce the shirts, and if we had complete prohibition, the price would not increase to the Canadian consumer?

Mr. Wilkinson: The Canadian made garments, as you know them today, would not increase other than due to inflationary pressures, which we all have.

Senator Laird: What about the importation of fabrics, which appears to be necessary; what would that do to your prices?

Mr. Wilkinson: That would not affect our prices. The world fabric markets are also very competitive. Our prices would vary slightly, based on those variations.

Mr. Chairman, honourable senators, I do have two other colleagues with me and I would ask that they be allowed to make a brief statement. You may have some questions to ask them after.

The Chairman: Would you call them forward then?

Mr. Wilkinson: I call upon Mr. Cline.

Mr. Cline: Gentlemen, I assure you my remarks will be brief. Reference has been made this morning to rekindling the spark of opportunity for the investment of capital. I would suggest to you that one of the concerns of the industry is to rekindle an element of confidence in the people of the industry.

We are an industry that has had over 50 per cent of our Canadian market penetrated by low cost imports. Our growth has been frozen over the last ten years. Indeed, there has been a substantial reduction in the number of companies in our industry. It seems to me that one of the challenges that we face, and one of the needs we look to government for, is a planning framework not only from a capital standpoint but also so the people of the industry can begin to believe in their opportunity to serve the Canadian consumer.

Senator Macnaughton: Do you mean more control?

Mr. Cline: We are in essence asking for a five-year planning period. If there is a framework that we can be sure of, then we have something to build into. We are asking for a measure of protection that enables the domestic industry to be able to serve 65 per cent of the Canadian market. We believe those two points alone would present the industry with an adequate framework of opportunity for the future.

In addition to needs for capital, I emphasize the point that the people of the industry need to have a vote of confidence, in the sense that there is an opportunity for us to serve the consumer market and build job opportunities across a spectrum of opportunities in our industry.

I have worked for over 25 years in a shirt company in the community of Kitchener. While it is in Ontario, there are probably over 1,500 employees in the shirt industry between Cluett, Peabody and our own company, John Forsyth Co. Ltd., in the city of Kitchener. These jobs which have continued over this long period of time and these past careers have been available to the people of our community and we regard them as an important contribution to the economic framework of the country.

We seek a framework of time, so that we can plan on a longer basis and with some degree of confidence against this almost annual question of wondering what direction we now face for the next 12-month period.

Mr. Chairman, that is the essence of the remarks I wish to make.

The Chairman: Thank you very much.

Senator Macnaughton: Mr. Chairman, could one of the witnesses speak to recommendation No. 7 in this brief?

Mr. Wilkinson: Mr. Chairman, honourable senators, I will speak to recommendation No. 7.

When we put recommendation 7 in there, we had in mind that there would be a decided advantage to the domestic industry if when we have dialogue with the government, we could speak with more authority regarding the statistical position of our industry. At one time statistics on the shirt industry were collected by Statistics Canada, however, that was discontinued.

Senator Desruisseaux: When was it discontinued?

Mr. Wilkinson: I believe it was in 1974. We have very good statistics on imports but it is harder to state the case regarding our industry, in regard to domestic production.

Fortunately, the executive director of the textile board has come to our rescue in this area and the board is collecting relevant statistics on our industry which has been most helpful in the Textile and Clothing Board's review of our industry and our position vis-à-vis imports.

Senator Desruisseaux: Are these statistics still being forwarded to the government somewhere?

Mr. Wilkinson: No, just to the Textile and Clothing Board.

The broad recommendation made here was relevant, not only to our own industry, but the total garment industry, of the importance of having good domestic statistics regarding the industry if the government was to understand the total position of the industry.

Senator Walker: That is not available at the moment, is it?

Mr. Wilkinson: The information is very slow in arriving and the accuracy is very questionable.

The Chairman: There is nothing preventing you from doing what is in recommendation 7, is there?

Mr. Wilkinson: Pardon?

The Chairman: There is nothing to prevent you from setting up the kind of organization that you refer to in recommendation 7.

Mr. Wilkinson: We have done it within our own organization, but we feel if some impartial group did it it would have more credibility.

The Chairman: I see no reason why you should not do the work yourself.

Senator Desruisseaux: Possibly you do not like to release figures that might be taken up by others. Or is that the reason?

Mr. Wilkinson: No, what we had in mind here basically was that when you sit down to write a brief regarding an industry, whether it is the shirt industry, the sweater industry or the underwear industry, you have to build a case and support it with statistical evidence.

Senator Hays: You want some more government involvement?

Senator Laird: That is the trouble.

Senator Hays: Yes or no?

Senator Laird: We are on an austerity program now.

Mr. Wilkinson: In all fairness, I should say that we had a discussion on point 7 ourselves last night and when it was explained to us what was involved in collecting statistics, we decided that if we were submitting a brief again we would not put point 7 in. Perhaps we should drop point 7.

Senator Laird: It might be a good idea.

Senator Hays: Mr. Cline, is your company a subsidiary of a wholly-owned American company or is it a Canadian company?

Mr. Cline: My company is a private company and its ownership base is 100 per cent Canadian.

Senator Hays: It is a private company, not a public company?

Mr. Cline: That is right.

Senator Desruisseaux: Mr. Cline, in your field what is the percentage of totally-owned Canadian companies?

Mr. Cline: Do you mean in the numbers of companies or in the share of the total market? By far the majority of companies are Canadian-owned. I would think 80 per cent of the number of companies are, for sure, Canadian-owned in the shirt field.

Senator Hays: Mr. Chairman, are any of the witnesses who are here today involved with shirt companies which are public companies or are they all private companies?

Mr. Wilkinson: There are no witnesses here from a public company. The only company which would be public would be . . .

Mr. Cline: Hathaway Shirts.

Senator Hays: That is a public company?

Mr. Cline: Yes.

Senator Hays: Their statement would be available then.

Mr. Cline: Yes.

Senator Hays: Does anyone know their profit position or what has happened to them in the last five years?

Mr. Wilkinson: That would be difficult for us to know. The information would have to be obtained from the company because they are involved in several other divisions.

Mr. Max Kape, Past President, Canadian Shirt Manufacturers' Association, and President, Style Guild Inc.: There would also be White Stag of Edmonton.

Senator Hays: It would be like meat in Safeways. They would not keep good track of whether it was profitable or not profitable.

Mr. Wilkinson: If senators wish to have that information, I am sure it could be obtained from the Hathaway company on a confidential basis.

The Chairman: When you are closing plants, Senator Hays, and laying off people, it is not an attractive investment business, is it?

Senator Hays: Well, we laid them off in the gas business and I am telling you that the profits are going up every day.

The Chairman: Maybe you have a patent on the idea.

Senator Hays: The price of gas goes up.

Mr. Cline: With respect, Senator Hays, I do not think the gas industry suffers from low-cost imports, does it?

Senator Hays: No, high cost.

Mr. Kape: Honourable senators, after listening to my colleagues, I am of the opinion that there is not much I can add that you have not already heard. I would, however, like to say something which might be of interest, and which might help you to understand the problems our industry faces.

I would like to give you first some background about the company I represent. Style Guild Inc. was founded in 1948, employing four people. Today we employ approximately 605 people, and our plants are located as follows: Montreal, St. Denis de Richelieu, Ste. Victoire de Rochelle, St. Robert, St. Gabriel de Brandon, Berthierville, Cap de la Madeleine and Lampton, Quebec.

Senator Macnaughton: How can you fail with all those saints on your side?

Mr. Kape: We have a total of 605 employees with a yearly payroll of \$4½ million plus fringe benefits. I would like to add that in the present atmosphere of rising imports from low cost countries we are having a tough time keeping this company together. If nothing is done to change the textile policy in Canada quickly, so as to assure us of long term stability, which will in turn encourage us to make further investment and continue into the future, we will slowly be destroyed and will eventually have to close our doors.

We all know what that will mean. Should the employees who are now working for us, and who are trained to sew, especially in these small villages and towns, become unemployed, there are no other industries that can employ them there, and I doubt if there are any technological industries that can or would locate themselves in such small centres to retrain these people, as it would not be practical. These centres are very small, with very, very small populations, with the exception of Cap de la Madeleine and Montreal.

The other serious problem, I repeat, that we face, is the availability of certain fabrics which are not made in this country, which we have to pay high tariffs to import, which are available to low cost exporting countries at a duty-free rate, and who ship to us the ready-made garments at much lower prices than we can manufacture them for here.

We recommend that the garments made from these same fabrics, and that are imported, should not be permitted into this country. If they cannot be restricted, then our industry should be permitted the same privilege of importing these fabrics under the same terms as the exporters from the low cost countries.

Senator Desruisseaux: You would be recommending going further than they do in the United States, would you not?

Mr. Kape: I do not think the United States has that problem with regard to these fabrics, because they have large production of such fabrics themselves.

Senator Desruisseaux: They do not have a total embargo.

Mr. Kape: We are saying not only that we have to pay a high tariff on these fabrics in order to bring them in, but that the exporting countries get them duty free and export ready-made garments to us.

Senator Hays: What countries would you be speaking, of specifically?

Mr. Kape: Most of these fabrics are manufactured, I would say, in Japan, Korea, Taiwan and the United States. Hong Kong manufactures shirts out of these fabrics. They import them from Japan. I believe Taiwan does not import them, but manufactures the fabrics themselves. Korea would import a certain amount from Japan, but they bring them in duty-free. They have lower labour costs than we have, and they ship them to us at much lower prices than we can manufacture at. Not only that, but our duty rate on these same fabrics that we have to import, which are not made here, is higher than the made-up shirts that come in. The shirts come in at 25 per cent and the fabric comes in at 22½ per cent plus 13 cents a pound. So what we are recommending is that if we cannot get the fabrics on the same basis as these exporting countries who are shipping shirts to us, then we should not allow these shirts into the country. But something has to be done to stop this unfairness with that particular product.

Senator Macnaughton: But is that not dumping?

Mr. Kape: No.

The Chairman: Well, it would be difficult to value the fabrics in the other country. If you value them at their cost, then that would be much lower and therefore the overall value of the finished article would be much lower coming into Canada. So how would you want the thing to work? You feel that you should be able to buy the fabric from the other country at their domestic price?

Mr. Kape: The same price that they pay for it.

The Chairman: Then you might face an anti-dumping suit from others in the shirt business in Canada.

Mr. Kape: If the government permits these fabrics in duty-free for shirts.

The Chairman: But that is specializing for one particular operation.

Mr. Kape: That is right, but it is only for fabrics not made in this country. It is not for fabrics that are produced in this country but only for fabrics not produced in this country.

The Chairman: You mean of a class or kind not made in Canada?

Mr. Kape: That is right.

Senator Cook: Are they very similar to fabrics of a class or kind which are made in Canada?

Mr. Kape: No, senator.

The Chairman: Anything else you wish to say?

Mr. Kape: Yes. Another reason that we must have available to us these special fabrics is that the Canadian consumer and retail buyers are influenced by mass advertising media from the United States and the European continent. They travel, they see and they are aware of what is going

on in the style centers of the world. Therefore we in the apparel industry must provide the retailers in Canada who in turn can supply the consumer with current fashions to justify our markets.

In closing I would like to say, assure us in our industry 65 per cent of the total market, make available to us fabrics not made in this country on the same basis as exporters from the low-cost countries, give us this ability for a five-year planning period, and we will surely increase employment and consequently be a comfort to all the textile industry of Canada. Thank you.

Senator Desruijsseaux: Why the limit of five years? If the reasoning stands, then why five years?

The Chairman: To give them a good run at it, I suppose.

Mr. Kape: This will give us a good start and we can plan. But on the basis that we are running today, that is one year at a time, it is quite difficult and we are afraid to make investments. We live in fear.

Senator Macnaughton: Have you had a substantial increase in wages in your particular field?

Mr. Kape: Our payroll today, as I mentioned just now, is \$4.5 million a year. We employ 600 people so this comes to approximately \$140 a week per person for a 40-hour week which works out at an average of \$3.50 per hour. It is not too long ago that we were paying apprentices in our industry 40 cents starting salary.

Senator Barrow: Why does your industry keep hammering away at 65 per cent of the domestic market when according to the figures presented at page 6 of your brief in 1971 you had 59 per cent of the market; in 1972, 63 per cent; in 1973, 68 per cent; and in 1974, 59 per cent? Will it make that much difference to your industry?

Mr. Wilkinson: Canada is basically a short-run economy, as we all know. One of the concepts advanced in the textile policy which was established in 1971 was that companies should concentrate on the items which they can produce well and profitably, in order to be more competitive and also to serve the Canadian consumer better. In order to do this in a short-run economy, we must have a certain share of the total market to make it economically feasible. Our opinion is that we must have at least 65 per cent of the market.

Senator Barrow: You state "at least 65 per cent of the market".

Mr. Wilkinson: That is right.

Senator Barrow: That is not what is said in the brief; it says you want 65 per cent of the market.

Mr. Wilkinson: When I say "at least 65 per cent," I mean 65 per cent or more.

The Chairman: We thank you very much for your presentation, gentlemen.

Honourable senators, we have left the presentation of the apparel industry and time is moving along. I do not consider that it would be fair to them to attempt to rush it. I have, therefore, arranged that this room will be available and I thought the committee would resume when the Senate rises, at approximately 3.30 this afternoon. Is that satisfactory?

Hon. Senators: Agreed.

The Chairman: I have learned from those who are appearing on behalf of the apparel industry that this will be satisfactory to them. I am sorry we did not finish all our work this morning, but we will finish it this afternoon. We adjourn now until the Senate rises at or about 3.30 this afternoon.

The Committee adjourned.

The committee resumed at 3 p.m.

The Chairman: Honourable senators, we have one submission to deal with this afternoon, and that is the one on behalf of the Apparel Manufacturers Council of Canada. We have a number of their representatives present. I was going to call on Mr. Bryan first, but he is not here at the moment. Mr. Elkin is not here at the moment either, but of course we have to remember that we did tell them we would resume at about 3.30.

Who is here?

Mr. L. Peters, director, Montreal Dress & Sportswear Manufacturers Guild: I am here, Mr. Chairman. My name is Peters. I would prefer, however, that submissions be made to you by . . .

The Chairman: Well, whether you prefer it or not, we are calling on you first. Will you come up, please?

Mr. Peters: I will come up, but . . .

Senator Desruijsseaux: You will manage very well.

Mr. Peters: Thank you for your confidence.

Senator Connolly: We do not want to embarrass you, Mr. Peters, but if you have the submission, will you present it?

Mr. Peters: I do not have the submission as it was agreed upon to be delivered by Mr. Bryan in order to allow the senators to present questions. I am therefore a little embarrassed, Mr. Chairman.

Senator Walker: Do you have a copy of it?

Mr. Peters: No.

Senator Cook: There is one here.

Mr. Peters: That is the opening statement. I am talking about a statement that Mr. Bryan would like to make which he prepared last night.

The Chairman: I will tell you how we are going to do it. You can tell us who you are, who you are identified with, and what business you carry on. Then we will pop the questions.

Mr. Peters: I am Lazare Peters. I am the director of the Montreal Dress and Sportswear Manufacturers Guild, which is an association of manufacturers of ladies' dresses, ladies' sportswear and blouses in the province of Quebec.

The Chairman: How many would be comprised in that association?

Mr. Peters: Our association has a membership of 350 companies.

The Chairman: How many employees would that represent?

Mr. Peters: Approximately 14,000.

The Chairman: Are they located only in Quebec?

Mr. Peters: Only in Quebec, sir.

The Chairman: In various places in Quebec?

Mr. Peters: Exactly. Of the 350 companies, approximately 65 are in various small towns of the province of Quebec. In the Eastern Townships they go all the way from Granby up to the Baie Comeau area, Beauce County, and many, many towns in the province. The rest of the membership of our association is located in and around Montreal.

Senator Desruisseaux: These are all Canadian owned companies, are they?

Mr. Peters: I do not think we have any non-Canadian companies; they are all Canadian owned companies.

Senator Connolly: When you say "company", you mean an incorporated company, do you?

Mr. Peters: Some are not incorporated; some are registered partnership or family companies. The majority, however, are incorporated companies.

The Chairman: How many employees did you say they represent?

Mr. Peters: 14,000, approximately.

The Chairman: What would it have been in 1971, say?

Mr. Peters: In 1971 it would have been approximately 12,000 or 12,500.

The Chairman: Has there been progress in maintaining your share of the market? Has that increased, volume-wise?

Mr. Peters: No, and here we come up against a problem that I think you will hear about time and time again as you discuss the question you have asked with other representatives of the clothing industry, or the apparel industry. The availability of statistical data is extremely limited, so that when you ask if we have a share of the market, let me answer it, somehow, as follows.

I have made a slight study of the hours of input by the membership of our association, and I have found that 1971 to 1972 showed an increase of 2.15 per cent in the hourly input of our labour force. In 1972 to 1973 we had an increase of 1.141 per cent. In 1973 to 1974 we had a 2.9 per cent increase. In 1974 to 1975 we had a 1 per cent increase.

I speak of the hourly input because we do not have proper statistical data on the product increase or decrease, and I do not know if I am prepared to blame anybody for this lack. I would like to explain what I mean.

There is one constant in our industry, and that is change. There was a time, many years ago, when a dress manufacturer was recognized as a dress manufacturer, even to the degree where we recognized him in what we called the price bracket. If he made a \$10.75 wholesale dress, he was known as a \$10.75 dress manufacturer. If he made a \$15.75 dress he was known as such. In the last ten years, particularly, the change has been completely revolutionary in this regard.

Senator Connolly: I do not recognize those prices, believe me.

Mr. Peters: You do not recognize them because the marketplace does not call for them, and God help the manufacturer who tries to sell dresses at those price points; he simply would not sell them. That, however, is by the way.

Effectively, though, the change that has taken place in the industry is such that a blouse manufacturer who was at one time making only blouses is now making blouses, slacks, skirts, and even dresses; so that the change that has taken place almost prohibits, and certainly inhibits, us from developing proper statistical data in order for us to come and say, "With regard to this product, we produced in 1971 quantity 'X', and in 1975 we produced quantity 'X plus,' or 'X minus.'" "The change is constant.

The Chairman: Have there been any failures in the business since, say, 1971?

Mr. Peters: Yes, we have had some failures. Fortunately, there have not been too many. In the last few months we have had a few more than we like to think about, but generally speaking the industry has been in fairly good shape, in the sense that we do not have and have not had a high incidence of bankruptcies.

Senator Connolly: Mr. Peters, I do not like to use this term, but have you an organization of what might be termed "sewing circles"? Is that what these small units with so many people involved amounts to so far as the small towns are concerned? I can understand that in Montreal you would be big garment manufacturing companies, but do you also contract work out to smaller groups in the community and the smaller towns?

Mr. Peters: Yes; in the small towns we have members who are contractors, in the main. They are not necessarily small: we have contractors who employ 150 to 200 people; we have one contractor who in three plants employs 460 people, up in Beauce County.

Senator Connolly: And that is a machine operation?

Mr. Peters: Yes.

Senator Connolly: I am referring to the needle trades, so to speak.

Mr. Peters: No; contractors give out machine work, pressing, finishing et cetera. It is actual production of garments. We have some small companies in Montreal which employ only 15 people, and we have bigger companies as well, so it is a mixed bag of companies as far as employment is concerned.

The Chairman: How does the matter of imports from developing countries, both fabrics and finished goods, affect your industry?

Mr. Peters: We have been affected by imports of garments for many years. There was a time in the late 1950s when manufacturers in our industry recognized that the volume base of the industry had been eroded by imports from low-wage countries, at that time particularly Japan. Subsequently, of course, Japan became a producer of fabric, rather than garments for export, and the imports started to enter from countries such as Hong King, Taiwan, the Phillipines, et cetera.

The Chairman: Korea?

Mr. Peters: Korea, South Korea. Garment imports bring in more fabrics to this country than fabrics bring in.

Senator Desruisseaux: What percentage of your production would be dropped that way, approximately?

Mr. Peters: I would say somewhere in the area of 20 per cent; perhaps even more now, in the area of 22 per cent or 23 per cent of the production in our area, particularly if we include blouses, slacks, skirts and dresses. There are not many dresses, but blouses, slacks and skirts are entering en masse. Of the total of our product mix, 22 to 23 per cent are in low-wage country imports. However, the point that must be stressed is the fact that when a dozen blouses are brought in, in effect either 22 years of fabric or, perhaps, 28 yards of fabric, depending on the width of the fabric and the style of the blouse, is brought in. If a dozen pairs of slacks are brought in and the fabric is 45 inches wide, 16 to 18 or 19 yards of fabric is effectively brought in. So the area of damage done, if you wish to refer to it as such, or penetration from the garment point of view and the textile point of view, is by the import of garments.

Now, so far as import of fabrics is concerned, I must here state that, as I explained earlier, change in our industry is constantly going on, basically because it is a fashion item production. The whim of milady in Canada is, even to me, who have been involved in the industry for 40 years, still very strange. The needs and the desires of the fashion consumer, the fashion buyer, if they are to be followed, require fabrics of all kinds, not necessarily fabrics from low-wage countries only, but fabrics from all over the world in order to maintain our ability to supply to the consumer her fashion needs. This is much more so than perhaps in other areas of the apparel industry.

We heard this morning the representatives of the shirt industry explaining something along the same line. If their position is correct, and I am sure it is, Mr. Kape made the point that the public relations of the United States brainwashed the Canadian consumer. His reference was mainly to men, but imagine what it is doing to our ladies and the needs of fashion dictate availability of fabrics from international sources. If we exclude fabrics which are either not made in this country or are made in such small quantities or in a manner which does not allow for diversity of the same fabric in different patterns of prints, et cetera, then our retail buyers simply go offshore to buy.

Mr. Chairman, I have a letter here which was sent to me by Mr. Sol Victor. Mr. Victor, through his company, Gregory Sanders Inc., is a member of our guild, and I had asked him to appear before your committee this morning. Unfortunately, he was unable to do so and his letter will explain why. Mr. Chairman, the letter reads as follows:

Dear Mr. Peters:

I am very sorry that I cannot attend the meeting with you that is taking place in Ottawa regarding "Imports". As you are reading this letter, I am sorry to tell you that against my better judgment, I am now in Hong Kong and will be in other Asian Cities with the merchandise manager of one of Canadas' leading Specialty Shops looking over the Import Market.

For the past few years, my manufacturing area has grown from one hundred and twenty-eight employees and one plant, to close to three hundred employees and two plants. However, the market for domestic goods is gradually shrinking and the import market has grown to a much greater percentage of the total volume of sales.

Customers who once came in and asked to see my Line, now question in regards to my Import Line

because their buying dollar from their head office has been broken into imports and domestically manufactured goods; and as I indicated in my previous paragraph, their "Open-to-Buy" is greater on the import side over the domestic side.

The Chairman: Do you mean, then, that the direction in buying seems to be going . . .

Mr. Peters: Towards the importation of made-up garments in the product mix in which he so ably participates, namely, ladies' sportswear, skirts, slacks, blouses, jackets et cetera.

The letter continues:

My present trip is to probe suppliers that can make up goods to my specifications and to my needs; and I deem this is very serious matter due to the fact that my manufacturing growth is being stunted, and any future growth and employment of any more people will have to be curtailed.

Hoping you can shed some light to the Senate Investigation Committee and open their eyes to these perilous times and situations that the local manufacturer has to contend with.

Yours truly,

Gregory Sanders Inc.

Senator Connolly: Does the writer of the letter seem to favour imported goods because of price, or is it because of stylings, or the design of the materials? Perhaps it is all three.

Mr. Peters: I would say all three, senator, plus a fourth. The merchandise manager of one of the largest, if not the largest, retail chain organizations in ladies specialty apparel has asked this gentleman to accompany him to Asia to buy goods.

Senator Connolly: And yet he is manufacturing in Canada.

Mr. Peters: He is one of the largest manufacturers in Canada. This is being done because of price and because certain fabrics are not available in sufficient quantities in Canada because of restraints. For one reason or another, the local manufacturers cannot supply or do not supply all the required fabrics.

Senator Desruisseaux: Why is that?

Mr. Peters: Basically, because Canada represents a small market. It is economically difficult for our manufacturing mills to supply all of the required fabrics.

Mr. Rose of Lana-Lee Fashions Inc. was present this morning and had hoped to appear before the committee. Unfortunately, he had a prior engagement in Montreal for 4.30 this afternoon. He wanted to relate to the committee his experience with mail order catalogue houses. He was a supplier of the T. Eaton Co. mail order catalogue. As you are aware, the T. Eaton Co. decided to withdraw from the mail order business, leaving a void in the market of \$300 million in sales. Naturally, Mr. Rose, along with others, went to the competitor company, Simpsons-Sears Limited, and offered to do business with it. Simpsons-Sears' answer was that it would try but that more than 60 per cent of its purchasing for catalogue sales was going to be comprised of offshore purchases. Mr. Rose wanted me to relate that to the committee.

Senator Connolly: Again, was that because of price, styles and design of materials?

Mr. Peters: Basically, I believe for price. As far as style of garment is concerned, there is no industry in the world that can outshine our Canadian industry.

The Chairman: What benefits would ensue if the Canadian industry's share of the domestic market, through quotas established on finished goods of the various types that come in from offshore, moved from, say, 45 per cent to 60 per cent?

Mr. Peters: Mr. Chairman, I do not recognize figures such as 45 or 60 per cent. I do not accept those figures. I heard those figures mentioned earlier today. We are in a position to provide 100 per cent of the Canadian market in terms of price competitiveness, styling and quality in relation to our competitors. There is no foreign industry that can produce garments that will outshine our Canadian products in relation to styling and quality.

Senator Connolly: Simpsons-Sears does not feel that way.

Mr. Peters: Simpsons-Sears goes offshore on the basis of price.

Senator Connolly: That would be included in being competitive.

Mr. Peters: Simpsons-Sears will go to the Far East for price. When I speak of being competitive, I am referring to our industry being competitive vis-à-vis the developed countries where a competitive relationship can be established. We have to have something on which we can judge our competitive position. We could never judge our industry on the basis of manufacturing in the developing countries.

Senator Connolly: You would qualify "competitive" to the extent of being competitive with a comparable foreign industry?

Mr. Peters: Of course. We cannot possibly compete with a South Korean lady who works for 14 cents an hour for God knows how many hours in the day or the week.

The Chairman: Therefore, a quota is necessary.

Mr. Peters: A quota on the importation of garments, in my view, is essential. What is also essential is foreknowledge on the part of our industry as to what is coming into this country. That foreknowledge would involve a form of surveillance, and we have the mechanism for such surveillance, as was explained this morning, through the Import Control Office.

That knowledge being available, the industry would then be aware of what they have to compete with. Slapping on quotas in an indiscriminate manner is not the answer. First of all, I do not think the government would go along with such a system, with all due respect to this committee. However, a discriminating approach to quotas in relation to a forthcoming threat becoming evident through our surveillance mechanism would be far more acceptable and would achieve greater success.

Senator Connolly: You are making the argument that was made this morning by Mr. Brady that we should have more and more Article 4 agreements.

Mr. Peters: In effect, yes, in relation to garments.

Senator Connolly: Also in relation to fabrics?

Mr. Peters: No, I do not take that position.

Senator Connolly: That was Mr. Brady's position this morning.

Mr. Peters: Yes.

Senator Connolly: Would you tell us where you differ?

Mr. Peters: At this point, I can only say that this concept of one industry is something that is strange to me. I am not prepared to accept it, with all due respect to my friends in the petrochemical industry and the fabric industry. We are the producers of the end product and we must relate to our customers, to the consumers. I do not believe restraints all the way down the line is the answer. We must provide the kinds of garments that the population of this country wants, demands, and is willing to pay for.

Senator Connolly: If I may interrupt you—and I do not intend this to be critical of you—what you are saying is that since you manufacture the end product, you perhaps would be better served by being able to get cheap materials from abroad—not exclusively, but at least in some measure—which would allow you to have a lower price overall in your range.

Mr. Peters: You are making the assumption, senator, that the fabrics we get are cheap.

The Chairman: I think what Senator Connolly means is that they cost less.

Mr. Peters: I am not prepared to accept that fabrics imported into Canada are brought in because they are cheap or because they cost less.

The Chairman: Mr. Peters, do not quibble over words. If you favour quotas on finished goods coming in, that would be a benefit to your industry.

Mr. Peters: Sir, it would be a benefit both to our industry as well as the textile industry.

The Chairman: Let's say to your industry as well as others in the textile field.

Senator Cook: Why would it be a benefit to the textile industry, if it was a quota on wearing apparel, and yet you can buy your textiles wherever you like? There is no quota on the textiles coming in but there is on the garments. It seems to me to be very reasonable.

Mr. Peters: As I explained a moment ago, sir, the importation of any amount of garments means effectively the importation of textiles at the same time. There are more textiles coming in that way than as piece goods.

Senator Cook: As far as the textile industries are concerned, it does not matter to them whether the textiles come in in the form of garments or whether you bring them in in the raw and then manufacture the garments. They do not sell it anyhow.

Mr. Peters: Except that the garment industry in the years gone by, and even today, always support our domestic industry and buy from our domestic industry first, because of service, because of availability on the market place, and the importation of goods is to supplement the needs of the industry producing garments.

Senator Connolly: That is what I said.

Mr. Peters: That is correct.

Senator Connolly: That is what I said.

Mr. Peters: I am sorry if I misunderstood you.

The Chairman: You are giving us a picture of a finished goods industry subject to quota and a fabrics industry, or shall I call it raw material, without any quota.

Mr. Peters: I did not enunciate that all fabrics were to come in free or come in uninhibited, without any quotas. That was not our position, or my position.

The Chairman: I gathered it was, from what you said.

Senator Connolly: I must say I did too.

Senator Cook: I did three.

Senator Walker: What is your position then, let's have it.

Mr. Peters: My position is that our industry does require and appreciates the functioning in Canada of a viable textile industry. Because of the Canadian market being such as it is, it does not appear to be economical for the textile industry to supply the garment industry, the fashion segment of the garment industry particularly, with all its requirements.

Senator Connolly: I do not think you are very far away from the position taken by Mr. Brady this morning. If you are going to use Canadian fabrics for the garments that you make, you want to have assurance of supply, the design and the quality of material that the Canadian industry can provide, but you want to supplement that with goods from offshore which will enable you to bring your price range a bit lower, because the cost of those garments laid down in Canada, at least, of that material laid down in Canada, is going to be lower than the cost if you had acquired that material from Canadian sources.

Mr. Peters: This is not always the case and it is not necessarily the reason for bringing in these goods. The basic reason, to my knowledge, is bringing in fabrics which we do not have available to us in Canada, either at all or we do not have these fabrics available to us in sufficient quantity or diversity.

Senator Connolly: Are you arguing that the door should be opened without quotas so these goods can come in here at will?

Mr. Peters: I say those fabrics which are not made in Canada, yes, or some other form of arrangement should be made which would allow our industry to get the fabrics and yet not be damaging to the Canadian textile industry.

Senator Desruisseaux: What percentage of your fabrics do you import?

Mr. Peters: I would say our members import approximately 45 to 50 per cent of their requirements.

The Chairman: Mr. Peters, we have been talking about your industry, or, if I may say, the field in which you operate. I have some other names here who are apparel manufacturers. Am I doing the right selection, to get a viewpoint? What about Mr. Bryan?

Mr. Peters: Yes, he is here now.

Senator Walker: Mr. Peters is very modest; he said he was only speaking for his own industry.

The Chairman: That is right. Now, Mr. Bryan, we would like to hear from you.

We are not dismissing you, Mr. Peters, but we feel we have the information we want as it relates to your particular industry.

Mr. Bryan, will you come forward please?

Mr. Bryan is a member of the Apparel Manufacturers Council of Canada, from Toronto.

Mr. F. Bryan, Member apparel manufacturers council of Canada: Mr. Chairman, honourable senators, I am Fred Bryan, the Executive Director of the Apparel Manufacturers Council of Canada. I apologize for being late. Your chairman very graciously said we were not late but you were early.

The Chairman: We were early.

Mr. Bryan: We were gratified to have this opportunity of participating in your study of the problems of the Canadian textile industry. We assume, and we hope correctly, that your term "textile industry" refers to both textile and clothing and obviously that goes without saying from your deliberations today.

Since the preparation of our submission in December, we have been able to put together some additional statistics from Statistics Canada and copies of the tables have been given to Mr. Jackson for distribution for your consideration in detail.

Our purpose in this statement is to summarize the comments made in our earlier submission. It has been pointed out by others appearing before you that the clothing industry in Canada is a very fragmented industry. The following figures will illustrate just how true this statement is.

Statistics Canada reports in 1972 that there were 2,462 establishments in the clothing industry across Canada who employed 126,435 persons, 80 per cent of whom were women. The value of shipments of the industry was \$2,115,228,000. Of this total number of establishments in the clothing business, 1,730 employ less than 50 workers and account for 27.4 per cent of the total value of shipments of the industry. 732 establishments employ more than 50 workers, to account for 72.6 per cent of the total value of shipment. Imports provided about one-third of the growth in the Canadian consumption of apparel.

Senator Connolly: Imports of finished products?

Mr. Bryan: Imports of garments. Imports are rising much faster than Canadian shipments. In the period from 1971 to 1974 the respective increases amount to 111.2 per cent for imported garments, 22.5 per cent for domestic shipments.

Despite these rather alarming figures, the clothing industry has been slow to use the methods provided in the textile policy to obtain restraints on imports. There have only been 5 cases submitted to the board since 1971. They dealt with men's shirts, men's suits, sweaters, outer wear of all types, and leather garments of all types.

One of the compelling reasons for this lack of activity by the clothing industry has been the textile and clothing board act requirements of proof of serious injury. Due to the fact that the dollar value of shipments has increased over the years, and we still have a significant share of the apparent Canadian market in total, but not, certainly, in

several sectors of the industry, we have been slow to take cases to the Board.

Senator Connolly: You say five cases have been heard?

Mr. Bryan: Five cases have been heard.

Senator Connolly: Was significant damage to the industry found in each case?

Mr. Bryan: Yes. Well, excuse me. I cannot make that statement, no. Significant damage was found in two cases, namely, shirts and men's suits. The sweater case was just submitted yesterday morning. The underwear and leather cases are still under consideration by the board.

Senator Connolly: Significant damage was found in the two cases that had been reported.

Mr. Bryan: Yes.

Senator Connolly: Thank you.

Mr. Bryan: Another reason for not presenting cases to the Textile and Clothing Board has been the complete lack of up-to-date statistical information, principally in the area of Canadian shipments. The latest available figures which give the principal statistics of the apparel and clothing industry are for the year 1973, as published by Statistics Canada. Similarly, the latest available imports statistics are for October, 1975.

One of our major concerns with textile policy has been the lack of what you might term "follow through" by the government in those areas, such as the improvement of statistics, both as regards timeliness and in sector detail, which were referred to in the textile policy as being in the works, as well as the failure to rationalize tariffs on textile fabrics, again as promised.

The alarming rate of increase in imports in the period January to September, 1975, compared with the same period in 1974, has caused real concern in the industry, and will result, we believe, in concerned action by the industry in requesting government to take immediate action to place all importation of apparel on the import control list, in order that up to date statistical information will be available regarding trends in imports. In the men's suit case, particularly, which I was involved in, we found that as a result of being on the import control list from certain countries—the low wage countries and two state controlled economies in Europe—we have been able to find cases of increased imports in a very short period of time. An example would be that of Romania, which, between the period of July 1 and December 16, 1975, shipped some 37,000 suits to Canada. Excuse me. I am using the term "shipped." They did not ship, they requested import permits for shipments. We obtained this information in January, and were therefore able to make representations to the board to place restraints on the Romanian imports of suits.

The Chairman: And the result?

Mr. Bryan: We have no result as yet. A letter was just recently written.

Senator Desruisseaux: How long ago did you place your case before the board?

Mr. Bryan: The letter has just been written, in the last ten days.

Senator Macnaughton: But no suits have come in.

Mr. Bryan: I believe import permits have been issued. We do not know whether the suits have come in or not. We will not be able to tell until we get January, February or March import figures.

Senator Connolly: Mr. Chairman, if I could interrupt Mr. Bryan again, I might say that we had a discussion this morning with Mr. Brady in which we got very clearly the distinction between agreements having Article 3 of the international agreement in mind, and agreements with reference to Article 4. He was urging amendments to the legislation which would allow for the consummation of agreements pursuant to the provisions of Article 4. That would have the effect, if those agreements are concluded, of limiting the amount of imports from a given country into Canada, pursuant to the agreement.

Now Mr. Bryan is talking about another device, namely, import controls, which is imposed entirely by Canada. The correlation between the Article 4 agreement restrictions and the restrictions that are imposed upon imports by import controls we have not had explained to us here, and I think this piece of evidence should sometime—perhaps today—be given.

The Chairman: I thought Mr. Brady this morning said, in dealing with Article 4, that bipartisan agreements would come under the category of voluntary agreements; in other words, there was no element of compulsion.

Senator Connolly: That is right; quite so. Until the agreement is signed; and then the exporter is fixed with a quota for a year. It may vary from year to year, but once the agreement is signed, then he is bound by it. Here we are talking about another control by way of an import control imposed by Canadian trade and commerce authorities or customs authorities, to restrict the amount.

The Chairman: Well, I am going to ask Mr. Bryan another question.

When you used the expression "import control", what did you mean? What are the mechanics of it?

Mr. Bryan: I do not believe I used the term "import controls." I said, "the import control list", which is a device administered by the export-import division of the Department of Industry, Trade and Commerce to require imports to have a permit before they can enter Canada. This is not a restraining exercise.

Senator Connolly: It imposes no quotas?

Mr. Bryan: It imposes no quotas.

Senator Connolly: But you do have to get a permit, and then the sky is the limit.

Mr. Bryan: It is more or less a method of the government and/or the industry by which these figures are made available to the industry by the office of special import policy.

The Chairman: It is just a method of getting statistical information.

Mr. Bryan: Yes. It is advance information of what is intended to be shipped to Canada.

Senator Cook: Can Canada refuse a permit?

Mr. Bryan: No, not that I am aware of.

Senator Cook: It is not really a permit. If you cannot refuse it, there is no limit of permission.

The Chairman: This is intended to provide a method of compiling statistics.

Senator Connolly: We would not want to make Mr. Bryan the authority on this, nor would he want to make himself the authority. We will have to get this from the officials of the department, I would think, if it is an import control.

Mr. Bryan: It is not an import control; it is a method of surveillance, so as to enable us to know what is coming in. I used the expression in relation to statistics that are available on imports. When we receive the import statistics the goods are in the country, probably, on the retailers' shelves, and the damage is done. It is the old story of the horse and locking the stable door that was referred to this morning.

Senator Connolly: We have raised the point, and I think perhaps we will have it in mind when the officials come.

The Chairman: We know that if you are going to put a finger on something, you should put an effective finger on it. Go ahead, Mr. Bryan. Our questions are likely to pop up at any time.

Mr. Bryan: We can find nothing to complain about in so far as the Textile and Clothing Board itself is concerned. They are doing the best possible job within the limitations placed upon them by the Textile and Clothing Board Act. Our complaints, or concerns, have to do with the government's attitude, which seems to accept a high level of imports of apparel into Canada contrary to the actions of other developed countries who have severely restrained imports from low wage countries. This, of course, aggravates our problem, because Canada is taking such a disproportionate share per capita of the apparel imports from low-wage and state-controlled economies. In addition, it has been shown by experience in primary textiles as well as shirts that once a recommendation is made by the Textile and Clothing Board, the time for consideration by the minister, the inter-departmental committee, the minister again and hence to Cabinet, is far to lengthy and does great damage to the industry affected. Some means of interim restraint should be found to cover this lengthy determination period, so as not to further compromise the industry sector involved. It is unfortunate that we cannot agree completely with the requests made by the primary textile industry in their requests for restraint. Our position has had to be that those fabrics which are not available in Canada for domestic producers should not be restrained and they should carry a reduced rate of duty. The argument used against this opinion of the clothing industry is that unavailable fabrics are substitutable with those that are available in Canada. This premise might very well be true if the apparel industry were dealing exclusively with the textile industry. Such is not the case; the apparel industry finds itself in the middle between the primary industry on one side and the retail industry on the other. The large department and chain stores, which account for over 50 per cent of all apparel sales in Canada are constantly shopping the world market and if goods are not available in a particular fabric that they choose from Canadian sources they are quick to import the garment.

We have suggested on many occasions a remission of duty arrangements similar to that which obtains in the machinery industry, so as to give relief to apparel manufacturers when fabrics are not available in Canada and yet

not discourage the primary industry from entering new fields of production. We do not intend today to go over all the arguments we have made in our submission, nor to repeat the arguments that others have made before you during the two previous days of hearings.

The Chairman: Mr. Bryan, I am just wondering whether the contest would appear between finished goods imported and fabrics imported in situations in which those fabrics are not produced in Canada. You remarked that if those fabrics which are not available in Canada bore a lower rate of duty it would help. However, if the government needs the revenue, I assume there would be a compensating high rate of duty on the finished goods. Would you go that far?

Mr. Bryan: We would like to go that far if it were not for GATT, which makes it very difficult to increase customs duty.

Senator Connolly: Plus the general climate of opinion which seems to prevail in this country, apart from the manufacturing sector of the economy, that we are in a time when it is futile to argue for higher tariffs, is that correct?

Mr. Bryan: Yes.

Senator Connolly: But that does seem to be the feeling that is abroad.

The Chairman: Yes, Senator Connolly. Without stretching my imagination very far, I could recall instances in which that situation has been dealt with and in order to encourage domestic industry the lowering has been on the raw material and the increase on the finished goods. You could put your finger on instances in the Customs Tariff where that has been carried through and very often it has been preceded by an inquiry before the tariff board. So I would not say that the general attitude to tariffs is that they must not be increased. Of course under GATT if they are bound items, they have problems.

Senator Connolly: Really I do not think, Mr. Chairman, that if this industry, for example, asked the government for more protection—it does not matter which government is in office, in my opinion this is an area of time in which high tariffs are not to be contemplated. GATT is one thing that prevents it really, but I think the general attitude is for freer and freer trade and less tariffs.

Mr. Bryan: There is no question about that, senator.

Senator Connolly: So, it seems to me that the argument being made by this industry to the effect that these bilateral agreements are restricting voluntarily the flooding of markets by either finished goods or by materials for finished goods is a sensible kind of approach. It has been criticized, but it may be the answer to the industry's problems.

The Chairman: Mr. Bryan, I interrupted you as you were nearing the end of your statement. Would you please continue?

Mr. Bryan: Thank you, Mr. Chairman. However, we do wish to place a great deal of emphasis on one point, that the apparel industry cannot compete with low-cost countries, because of their fractional wages compared to ours. Nor can we compete with state-controlled economies, because of their export subsidies and other benefits given to their producers and prices resulting which bear no relationship to cost.

Unless the government develops an industrial strategy for the apparel industry which will include as a major part restraints on low-cost imports, sectors of the apparel industry will continue the drift as they are doing now, employment will be curtailed and importing will continue by manufacturers, all as a result of a lack of confidence in the future and no real investment in the business will take place because of the uncertainties rife today.

I would like, on the conclusion of this statement, Mr. Chairman, to correct an omission I made at the outset. I overlooked the introduction of the members of our delegation who are present today as witnesses before your committee. If I might take the time to introduce the gentlemen and identify their companies for the members of the committee, Mr. Chairman?

The Chairman: Yes.

Mr. Bryan: On my immediate right is Mr. E. Enkin, of Cambridge Clothes & Copplay, Noyes & Randall Ltd., Hamilton. Seated next to him is Mr. David Cohen, Executive Vice-President of the Freedman Co. Ltd., Montreal, and also president of the Men's Clothing Manufacturers Association of the Province of Quebec. You have met Mr. Laz Peters, Executive Director of Montreal Dress and Sportswear Manufacturers Guild. If the other gentlemen in the room would stand: Mr. C. Kuzik, who is with Superb Sportswear Ltd., of Toronto; Mr. Stan Kivenko, who is with Jack Spratt Manufacturing Co. Ltd., in Montreal; Mr. B. Wilcox, of GWG (Eastern) Ltd., in Brantford, Ontario; Mr. G. D. LaViolette, the Executive Director of the Men's Clothing Manufacturers Association of Quebec; Mr. Lionel Rubin, President of Rubin Brothers Clothiers in Montreal; Mr. Paul Mancini, General Manager, Canadian Clothiers Ltd., in Toronto; Mr. Peter Covit, President of Match Mates Inc., Montreal; Mr. B. Rogers, of Children's Apparel Manufacturers Association of Canada; and Mr. Richard Pesner of Hyde Park Manufacturing in Montreal. Unfortunately, some of our members had to leave, but could I ask Mr. Enkin to make his opening statement, Mr. Chairman?

The Chairman: Yes, Mr. Enkin do you have something to add?

Mr. E. Enkin (Cambridge Clothes & Copplay, Noyes & Randall Ltd.): Mr. Chairman, honourable senators, the firm which I represent manufactures men's suits and accompanying items, such as blazers, jackets and slacks. The firm employs some 700 men and women and is located in the city of Hamilton. The city of Hamilton is generally classed as a heavy industry city, the home of two of Canada's largest steel mills and a host of other important industries, where women workers would not normally be employed. I think the Steel Company of Canada employs one or two women, but that is about all. For that reason, we are, in our own modest way, an important employer in the city of Hamilton. Until a few years ago our company never dreamed that the production of men's fine clothing in Canada would ever be threatened by imports from low-wage countries. However, I must confess publicly we were unrealistic in our appraisal. Today we are as much threatened as other industries who have either had to become mere distributors, such as certain branches of the electronics field, or gone out of business completely, as has been the case with some of the primary textile mills.

At one time, Hamilton had some of the largest cotton mills in this country. The apparel industry is ultimately faced with the impossible situation of attempting to manu-

facture in Canada, paying Canadian wage standards, while competing with wage standards of low-wage countries that are sometimes less than 10 per cent of Canadian wage standards.

If one were to use the example cited by Mr. Armstrong in his evidence before the committee on February 11 last, where an official of the Department of Industry, Trade and Commerce reported that he had observed the timing of the handwork of finishing a jacket, which took an hour and 10 minutes and for which the worker was paid in Korea 14 cents on a piecework basis, a comparable wage standard in Canada would be at least \$3.50. Korean wages, therefore, would be about 4 per cent of Canadian wages.

I am not suggesting that our wage standards are necessarily unreasonably high, but we do have to choose between living and working in Canada by Canadian standards or having a Korean standard for some Canadians. If we fail to accept this simple realism, what we will be ultimately doing is importing unemployment for Canadians to the extent that we displace Canadian workers seeking employment in Canada with Korean workers employed in Korea.

Canada's population is growing. We are constantly seeking ways and means of increasing employment. The apparel industry has been, and can be, a major contributor to the growth and development of jobs in this country, if we but determine that the industry is a vital one, and, therefore, should not be subjected to competition from imports from countries with low wage standards. Such imports should have appropriate restraints applied against them.

There are those who will argue that Canada, being a world trader, must buy in order to sell on world markets. However, we must decide how much unemployment we are prepared to accelerate for phantom trade advantages. To debate and argue this point intelligently would take more time than is permitted here. The simple fact that the government must decide—and it must do so quickly—is whether the primary textile and apparel industries are vital to the total employment picture in Canada and act accordingly to enable those industries to function.

No business can thrive in a climate of uncertainty with investors not knowing whether it will be an ongoing viable business five years from now, or whether it is sitting on a volcano that will erupt and destroy it within a few years.

If I were a young man, would I seek out the apparel industry? First of all, would I want to study and prepare myself with the requisite executive and technical knowledge? Would I be able to earnestly ask my friends or the investing public to put money into such an uncertain industry?

The answer, I am afraid, would have to be "no," and that is not a healthy basis on which to attract young people to a potentially vital and viable industry.

The government must recognize that the Canadian wage standard has to be recognized and competitiveness not endangered by the wage standards prevailing in Korea, Taiwan, Romania, Hungary, or other countries with state-controlled economies.

There are a host of other problems in the apparel industry that could and should be effectively discussed and which, in part, will, I hope, be covered by others. The government today is a 50 per cent partner in business. It takes, and seems to need, that share of the potential earnings of the industrial sector, and if it is to be an effective

working partner, it will have to shoulder its share of responsibility in determining industries' effectiveness.

I do not feel government bureaucracy should be expected to be in business, but where government action, or the lack thereof, has the power of life or death over an industry, then government must recognize the seriousness of its action or lack of action. We have to come to grips with that concept more realistically and more quickly than has been the case to date. Events are moving very rapidly. The situation in the apparel industry can wreck an industry, literally, in a season or two, and once wrecked, that industry cannot be built overnight or even over the course of a year or two, or a decade.

I know honourable senators are taking seriously the situation in which the industry finds itself threatened by the wage standards of other countries, which standards are totally different from Canadian standards.

Senator Walker: What is it you are asking for?

Mr. Enkin: We are asking for recognition for restraints on imports and made-up apparel from countries whose wage standards are not comparable with Canadian wage standards.

Senator Walker: Is your whole delegation unanimous in that request?

Mr. Enkin: I would think it is, senator.

Senator Connolly: The garment manufacturers are certainly unanimous in that request.

Mr. Enkin: I should say, first of all, that I am speaking for the men's clothing industry, which I know intimately, but from what I have heard I think that view reflects the view of the apparel industry as a whole.

Senator Connolly: Could we ask Mr. Enkin a couple of questions, Mr. Chairman? I will be very brief.

The Chairman: Yes.

Senator Connolly: The first one is a very quick one. Are your 700 workers organized?

Mr. Enkin: Yes, they are all unionized.

Senator Connolly: Wage rates are a matter of bargaining?

The Chairman: I can tell you that the union representative from Toronto will be appearing here next week, and later a union from Montreal, I believe.

Senator Connolly: I would like to ask Mr. Enkin a further question. This really comes back to your answer to Senator Walker. Would you think that a satisfactory bilateral agreement with the countries which flood the market and threaten to destroy your industry, imposing voluntary restraints, could be the answer to the problem that your industry faces?

Mr. Enkin: When you refer to voluntary restraints, voluntary restraints on the part of exporters? I do not think they could ever really be, what you might call purely voluntary; there would have to be some pressure applied.

Senator Connolly: I say "voluntary" under a bilateral agreement, a quota system, a voluntarily accepted quota, but nonetheless it is a quota.

The Chairman: Senator Connolly, with a penalty?

Senator Connolly: Yes. What would you say about that? In other words, the type of agreement described this morning by Mr. Brady in your view, would that type of agreement in fact be the answer to your industry's problems?

Mr. Enkin: I would say the decision of the Textile and Clothing Board which we ultimately got in May was a practical and realistic approach vis-à-vis the import of suits from Korea at that time, and we hoped it would be extended in a realistic fashion to the others whose exports are monitored, in a practical way.

Senator Connolly: Did it suggest a quota?

Mr. Enkin: I do not know whether they suggested it or if it was interdepartmental, but they did arrive at a figure of the number of suits that were to come in during the next twelve months from Korea.

The Chairman: However, nothing happened?

Mr. Enkin: Yes, it did. We commend them for the action they took. Our only query that now comes is that we had to come back again when the 12 months were up, and this is the volcano, the idea of 12-month program. It is insufficient; we cannot plan ahead.

Senator Connolly: That is why I am saying to you that an Article 4 agreement for a period of time, with penalty clauses as the chairman has suggested, would give you a chance to know what the competition would be and what you could expect from these exporting countries.

Mr. Enkin: As long as it was a realistic one and not one that would put the industry out of business, as it were, by the number of units allowed.

Senator Hays: What percentage, Mr. Enkin, do you feel you should have of the garment business?

Mr. Enkin: Can we qualify it, rather than saying "garment"? That is very general. If you want to do it vis-à-vis men's suits, I would say our margins are such that we would require about 90 to 95 per cent of the market to maintain our position.

Senator Bell: Mr. Enkin, do you export men's suits at all?

Mr. Enkin: We do not. There are firms that do, but the export market is extremely limited. We could not ship to Japan, we could not ship to Korea, and we could not really ship very much of anything to England. Probably the best export market was, for a while, into the United States. There are representatives of firms in this room who did so quite effectively, but when they had the recession, and their collapse, and the imports from Korea and so on, it put Canadian exports at a very serious disadvantage. I think the effect on the manufacturing market would be very limited.

The Chairman: Thank you very much, Mr. Enkin.

Mr. Enkin: If I may, this is a pet fetish of mine and that is the question of pricing. In terms of pricing, from almost time immemorial, the price of a suit of clothes, if it was approximately a week's wages, was always considered very fair. If you will reflect, you will see that if you went to Russia, or other parts of the world, one week's wages for a suit of clothes is extremely fair. Canada has always produced suits within that figure or less. Therefore, the Canadian consumer, the Canadian worker could never

complain that he could not get excellent value. I am hesitant to say this, but I feel that on investigation it might be proven that some of our retail friends are taking advantage, in that their markups on these imported items are higher than comparable for domestic production.

Senator Macnaughton: Has your industry ever enjoyed 90 per cent of the market?

Mr. Enkin: Yes, very much so, and more because our competitors were England, the United States and some from France. They were about the only countries that exported to us. We were always able to meet them head on, on the question of style and the question of service. There was no doubt whatsoever. It is not to be found on any record that the Canadian men's clothing manufacturers asked for any increase or change in tariff vis-à-vis those countries.

Senator Beaubien: Mr. Enkin, how much of a market have you got at the moment?

Mr. Enkin: I would say that when we made our application last year, there was a great danger that if something had not been done on a forward-looking basis, that our business might have dropped to 70 per cent.

Senator Connolly: You have how much now?

Mr. Enkin: The import statistics, which are very vague, say we are at the moment at about 90 per cent.

Senator Beaubien: 90 per cent?

Mr. Enkin: It is guesswork, a ball park figure. I do not think we are feeling that we cannot cope. However, if they would freeze the imports and we did not see any further growth, it would certainly help. Romania has just raised its head, and we do not know just what other countries there are. Unless they are on a monitored list, we have no idea how much it might be growing.

Senator Hays: What sort of protection do you get? What is the tariff on an American suit?

Mr. Enkin: I think it is about 25 per cent. I am not sure. We are not really concerned about suits from the United States into this country. We will take our chances.

Senator Hays: You would be very concerned if there was no tariff, if there was complete reciprocity?

Mr. Enkin: That is something we would have to investigate.

Senator Macnaughton: The U.S. suits are higher priced, are they not, in equivalent quality?

Mr. Enkin: We like to think we are giving the Canadian public better value as against an American suit. Our American friends might differ with me on that.

Senator Hays: Where do you buy most of your cloth?

Mr. Enkin: Our own firm would probably buy—and we are in the upper brackets of the clothing business—about 50 per cent from domestic mills and the rest would be the United Kingdom, Japan, some from Korea, some from Spain, some from France and some from Italy.

Senator Hays: Of the 50 per cent, is some of it wool?

Mr. Enkin: I would say that it probably would be, depending on the season. For the spring and summer

season it has to be a lighter weight of terylene and wool and the fall weights are completely wool.

Senator Desruisseaux: A Korean suit was talked about yesterday as a threat. How long has this Korean suit threat been going on?

Mr. Enkin: I would say the threat of the Korean suit began to raise its head about three years ago. We began to see it coming in, and we began to realize that it was going to be serious, but then it was sort of pooh-poohed. We started to get the brunt of it about a year and a half ago.

Senator Desruisseaux: And is it presently coming in?

Mr. Enkin: These suits are coming in, there is no doubt about it, but I think that if the restriction was kept at the present low figure we would be able to live with it, provided as I say, we do not see a growth of imports from other countries.

Senator Connolly: Could I ask Mr. Enkin one further question? I do not think it has been asked before.

How long has the Canadian industry been concerned with products from some of the developing countries, such as Korea, Hong Kong, Taiwan and so on?

Mr. Enkin: I can only speak for men's fine clothing. I cannot answer for women's or children's clothing. Are you asking how long we were aware of it, or how long the actual import of these goods has been going on?

Senator Connolly: For how long has this material been imported into Canada, whether as a finished product, or simply as material for manufacturing?

Mr. Enkin: Are you referring to Japan and Korea?

Senator Connolly: I would include Japan.

Mr. Enkin: Time passes quickly, but I would say probably 12 to 15 years.

Senator Connolly: It is a phenomenon that has developed since the end of the last war, in any event?

Mr. Enkin: Yes.

Senator Hays: It is when we started dealing with communist countries, that is when it started.

Mr. Enkin: You must recognize the importance of the question of displacement. I have a feeling it has displaced a large portion of the fabrics that used to come from England, for example.

The Chairman: Can we get to the last witness? Mr. Cohen.

Mr. D. Cohen, Executive Vice-President, The Freedman Co., Ltd., Montreal: Thank you. Mr. Chairman, honourable senators, my name is David Cohen, Executive Vice-President of the Freedman Co., Ltd., of Montreal, men's fine clothing manufacturers, employing about 550 people. We have been in business, under the present family ownership, since 1906.

While my distinguished colleague, Mr. Enkin, has most eloquently indicated the need for restriction of imports of clothing from low-wage, developing countries, with which I concur, I should like to address myself very briefly to the question of fabric availability. In the case of the men's fine clothing industry, this refers, in the main, to worsteds. Our

position is that we require free access to fabrics from all countries, without restraint.

The obvious question that arises from this statement is, how can we, on the one side, request restraints against made-up clothing, while at the same time we advocate free access to cloth or raw materials? The answer is that while the Canadian men's clothing industry can supply virtually all the requirements of the Canadian consumer vis-à-vis men's tailored clothing at every price quality and fashion level, the Canadian producers of worsted cloth can only supply a fraction of the industry's requirements by volume, by variety, and by quality.

Canada is a large country area-wise but a small country population-wise, with great regional and ethnic differences. These are reflected in the fashion aspect and the desire for different qualities and types of fabrics. That is why we are requesting that we have free access to cloth from whatever source possible.

That, gentlemen, is all I have to say.

The Chairman: Do you mean free access on special terms?

Mr. Cohen: No. I meant without restraint. There have been requests, over the years, by the worsted industry, that surcharges and quotas be negotiated on certain worsted fabrics.

The Chairman: Do you find that as part of the export policy of countries that ordinarily supply the fabrics?

Mr. Cohen: No. I find that the sources of supply of worsted suitings change from season to season and from year to year. Some of them are drying up. Great Britain is a good example of this. Great Britain was the traditional supplier of worsted suitings, but today that does not hold true. Japan is a much more viable source of supply.

The Chairman: A surcharge on the export of raw material strikes me as being rather odd.

Mr. Cohen: Well, it has been requested on occasion, senator.

Senator Walker: All these representations that have been made to date appear to be very reasonable. How long is it since you have made such representations to the government?

Mr. Cohen: With respect to fabrics?

Senator Walker: Yes.

Mr. Cohen: I think it was about a year ago, to the Textile and Clothing Board.

Senator Walker: And the same with regard to men's suitings?

Mr. Cohen: Yes.

Mr. Enkin: Our first application, I think, was last February. They listened to it, and we were granted certain things.

Senator Walker: They were very polite about it, but you have not heard any result?

Mr. Enkin: Yes, we have. Vis-à-vis the made-up garments there is a restraint now.

Senator Walker: For how long?

Mr. Enkin: I think it will expire in a month or two. The order was for a year, and the year is just about up.

Senator Walker: Was that restraint order to your satisfaction?

Mr. Enkin: Yes.

Senator Walker: And to you too, Mr. Cohen?

Mr. Cohen: Yes, senator.

Senator Macnaughton: Will you continue, Mr. Cohen, and say how long it took to get that order through, from application to judgment, so to speak?

Mr. Enkin: I think the application was in February, and the order was made some time in May.

Mr. Bryan: There were two. What happened, if I might answer, senator, is that we had an interim hearing at which we asked for interim action. There was an emergency situation with regard to Korea, and I believe the hearing was held, we had a decision, and Korea was put on the import control list for surveillance. The more formal hearing followed towards the end of March, and I believe it was within 60 to 90 days that we had a decision. The negotiations had pretty well been completed by then. The restraint levels were in place.

Senator Walker: Are you satisfied with the surveillance of these restraints, and that they are not putting it over the government with regard to imports coming in over the established quotas?

Mr. Bryan: Yes. It is operated in conjunction with Customs and with National Revenue, and this is the other value of import permits: the National Revenue department monitors what is coming in against the permits, and permits are not issued over and above the quota that has been negotiated.

Senator Walker: Yes; so that that method, if properly adopted, can get you the result you want, of having the amount of imports policed.

Mr. Bryan: It works very effectively.

Senator Walker: All right. So you are satisfied with what has happened. You are dissatisfied with the one year. Your real presentation to us, therefore, today, or the point you are making is that if you could get some continuity to this thing—five years, instead of one, for example—you would be happy. Is that right?

Mr. Bryan: That is true, senator, but also we are asking for the extension of the import control list treatment to all items of apparel. Because of the sharp increase that took place in the volume of such imports in 1975, in most areas of apparel, we feel that we might end up with exactly the same situation as we had in the suit area.

Senator Walker: You want to extend this.

Mr. Bryan: We want to extend surveillance to the whole of the apparel industry if we can.

Senator Desruisseaux: Has there been any subsidized import that you have had to face?

The Chairman: That is an entirely different matter, Senator Desruisseaux.

Mr. Bryan: We cannot really tell, but we suspect there has been.

Senator Desruisseaux: You know of no concrete cases?

Mr. Bryan: No.

The Chairman: That concludes the evidence we had scheduled for today. I am sorry we kept you working so

long, but we will have you at work again next Wednesday and, I would expect, for some few weeks after that.

Senator Walker: If the presentation next week is as good as the one we heard today, it will be very good.

The Chairman: The meeting is adjourned. Thank you very much, gentlemen.

The committee adjourned.



FIRST SESSION—THIRTIETH PARLIAMENT

1974-76

THE SENATE OF CANADA

PROCEEDINGS OF THE

STANDING SENATE COMMITTEE ON

BANKING, TRADE AND COMMERCE

The Honourable **SALTER A. HAYDEN**, *Chairman*

Issue No. 78

WEDNESDAY, MARCH 10, 1976

Complete Proceedings on Bill S-32 intituled:

**“An Act to implement conventions for the avoidance of
double taxation with respect to income tax between
Canada and France, Canada and Belgium
and Canada and Israel”**

REPORT OF THE COMMITTEE

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Barrow	Hays
Beaubien	Laird
Buckwold	Lang
Connolly	Macnaughton
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
Everett	Smith
*Flynn	(Colchester)
Haig	Sullivan
Hayden	Walker—(18)

**Ex officio* members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, February 26, 1976.

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Lang, seconded by the Honourable Senator Giguère, for the second reading of the Bill S-32, intituled: "An Act to implement conventions for the avoidance of double taxation with respect to income tax between Canada and France, Canada and Belgium and Canada and Israel".

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

The Bill was then read the second time.

The Honourable Senator Lang moved, seconded by the Honourable Senator Everett, that the Bill be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, March 10, 1976

(101)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m.

SUBJECT: Bill S-32—"An Act to implement conventions for the avoidance of double taxation with respect to income tax between Canada and France, Canada and Belgium and Canada and Israel"

Present: The Honourable Senators Hayden (*Chairman*), Beaubien, Connolly (*Ottawa West*), Cook, Desruisseaux, Hays, Laird, Lang and Macnaughton. (9)

Present, not of the Committee: The Honourable Senator Langford. (1)

WITNESSES:

Department of Finance:

Mr. M. A. Cohen, Assistant Deputy Minister, Tax Policy and Federal-Provincial Relations Branch;

Mr. Gérard Coulombe, Special Advisor, International tax Policy; and

Mr. Jean-Marc Déry, International Tax Policy Division.

Following discussion and upon motion of the Honourable Senator Macnaughton, it was *Resolved* to report the said Bill without amendment.

At 10:45 a.m. the Committee proceeded to the next order of business.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

Report of the Committee

Wednesday, March 10, 1976

The Standing Senate Committee on Banking, Trade and Commerce to which was referred Bill S-32, intituled: "An Act to implement conventions for the avoidance of double taxation with respect to income tax between Canada and France, Canada and Belgium and Canada and Israel", has, in obedience to the order of reference of Thursday, February 26, 1976, examined the said Bill and now reports the same without amendment.

Respectfully submitted,

Salter A. Hayden,
Chairman.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, March 10, 1976

The Standing Senate Committee on Banking, Trade and Commerce, to which was agreed Bill S-32, to implement conventions for the avoidance of double taxation with respect to income tax between Canada and France, Canada and Belgium and Canada and Israel, met this day at 9.30 a.m. to give consideration to the bill.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, we have a busy program today. The first item on the agenda is Bill S-32, dealing with tax exemptions. We have with us Mr. Cohen and Mr. Coulombe.

Mr. M.A. Cohen, Assistant Deputy Minister, Tax Policy and Federal-Provincial Relations Branch, Department of Finance: Honourable senators, on my right is Mr. Gérard Coulombe, Special Advisor on international tax matters. He has been with the department for several years. He is really the man who has done the work on the negotiation of these treaties. I just take the credit!

The Chairman: If we have any fault to find with the treaty, then you can call on him, is that it?

Mr. Cohen: I will take the blame; he will take the credit.

The Chairman: Is there an opening statement you would like to make?

Mr. Cohen: Not really, senator.

The Chairman: I have one question I should like to ask you. I went back and looked at the treaties that were in existence when the new Income Tax Act came in, and in looking at the bill I noticed that they did in one paragraph what you have taken three paragraphs to do here. Is there any particular reason for that? That is dealing with supplementary agreements.

M Cohen: This is the matter how to amend these agreements, is that what you are addressing your question to?

The Chairman: No. I just want to know why it was that dealing with supplementary agreements took three sections in the act giving validity to the agreements, whereas it was done in one section before. Are we missing something? Has something been added? I know there are more words there.

Mr. Cohen: Yes, indeed, something has been added. In the old bills which implemented the treaties there was really no efficient mechanism for supplementary agreement amending the treaties. It became necessary to go back and amend the act by another amending bill. We have tried to streamline that to some extent in the new procedure, in effect, by saying that the treaties can be amended by executive action, subject of course, to a negative resolution by Parliament. So that it will not be necessary to go

through the complete formality of an amending bill to make a simple amendment to a treaty. Yet, at the same time, of course, both the chambers will have an opportunity to approve it without all the trappings and formalities. That took a few more words to say in the bill.

The Chairman: Yes, quite a few more words. But that means you could have supplementary agreements as part of a supplementary convention, really. You are not amending the statute.

Mr. Cohen: No.

The Chairman: No, but you can do that anyway, can you not?

Mr. Cohen: No.

The Chairman: By agreement?

Mr. Cohen: I suppose, senator, we have always taken the view that if it was any kind of significant amendment we would always have to back with an amending bill.

The Chairman: Have you changed your mind on that now?

Mr. Cohen: Well, . . .

The Chairman: Or do you feel that these sections in this bill give you the authority to amend the bill? What does it do to the convention?

Mr. Cohen: We feel that these new provisions would give us the authority to amend the treaty without bringing in the formality of an amending bill, but subject to approval of a negative resolution of both chambers.

The Chairman: Who draws the line to determine whether it is the kind of thing that really is not important enough to bring before Parliament or is important enough?

Mr. Cohen: They all come before Parliament, senator.

The Chairman: Even the supplementary agreement under this bill we have before us?

Mr. Cohen: Oh, yes. The difficulty, as I understand it, was that under the old enabling legislation you really could not have a supplementary agreement without coming back and using an amending bill. We really have not had the occasion to sign many supplementary agreements in terms of the old existing treaties. There were only 16 or 18 of them. The situation was very static for a long period of time and then, of course, we froze it during the whole process of tax reforms. So perhaps for some 10 or 15 years there was really very little going on. Today it is a much more active situation, and, as senators will appreciate, this is just the first of a long series of bills which will be coming forward as we expand the treaty network to embrace some 40 or 50 countries. That is point one. Point

two is that other countries are beginning to renegotiate their own treaties so that we anticipate a much broader network of treaties and also we anticipate a continuing change in these treaties.

The Chairman: What you say is all right so long as we do not have another wave of tax reform.

Mr. Cohen: It wouldn't come from this side, senator. We are just responding to other countries.

The Chairman: Parliament, under this bill, in section 12, is kept in the picture?

Mr. Cohen: That is my understanding.

The Chairman: That is, it can express its view by a negative resolution. Would you illustrate that, please?

Senator Macnaughton: Mr. Chairman, could the witness explain what a negative resolution is?

The Chairman: That is why I asked him to illustrate it. I thought a negative resolution meant "no." Is that not what it means here?

Mr. Gérard Coulombe, Special Advisor, International Tax Policy, Department of Finance: If I may interject at this point, Mr. Chairman, I should like to go back to what the situation was under the old agreement, under the old enabling legislation. As I understand the old enabling legislation, the act, for instance, to implement the 1954 agreement with Germany would simply have said, "We are hereby implementing the agreement with Germany which is attached as Schedule I to this bill." And it would go on to say that "if there is a need to have a supplementary agreement, it will take another enabling legislation, another implementing legislation to implement the supplementary agreement." So everything had to be done by an Act of Parliament. We had one Act of Parliament to implement the existing convention and it took another Act of Parliament to implement an amendment or supplementary convention.

The purpose, Mr. Chairman, of the additional words that we are putting in here is to extend the scope of the implementing bill we have before us today; and this implementing legislation now says that it is implementing what is attached as Schedules I, II and III, France, Belgium and Israel, but it also gives a kind of advance blessing or implementation to a supplementary agreement that will be enacted, if I may use that word, by an order in council, by an executive order. However, having said the executive can implement a supplementary convention rather than having to go through another Act of Parliament, it says that we must protect Parliament's right to decide that what the executive has done is correct or is not correct.

The Chairman: Just interrupting for a moment, I am wondering whether you are giving more the appearance of form when you turn and bow in the direction of Parliament with this particular provision, because both houses of Parliament must agree under section 12. If they do not agree, nothing happens.

Mr. Coulombe: Quite right, Mr. Chairman, and I would think that this is the way our system should operate in the sense that the sovereignty is with Parliament which can disavow anything that has been done otherwise. But the system, I think to answer the honourable senator's question "What is a negative resolution?" is that we take this action at the executive level and say, for example, that the

taxes covered by the agreement with France are now changed to embrace new taxes which would have been adopted by France in two or three years from now. If, that in four years from now, France has new taxes, the Governor in Council adopts a decree which says that these new taxes are now covered by the convention. Once we have done this, we take this decree and table it in the House of Commons and in the Senate, and we say, "Please look at this and tell us, within a certain number of days, if you agree with it or not," and this, of course, is a negative resolution.

If Parliament feels that this is not a good supplementary agreement, and that these taxes ought not to be covered by the convention, the two chambers pass a resolution negating—that is what the expression "negative resolution" means—the order in council that would have been issued in the first place to implement this change of the convention. That is what a negative resolution is. It is to enable Parliament to disallow what the executive may have done.

If, on the other hand, Parliament agrees with what the executive may have done, and does not pass such a negative resolution, then the decree comes into force and is effective, and is implemented, because of the words of this statute here, which has implemented both what is in existence today, and what might come into existence by order in council, always subject to the right of Parliament, of course, to say, "No, we do not want to give you that kind of authority."

The Chairman: You have preserved the right of Parliament to say "no."

Mr. Coulombe: Yes.

The Chairman: I now turn to this other question.

Mr. Cohen: Mr. Chairman, if you are leaving this point, perhaps I might make one more observation.

The Chairman: Yes. I did ask you for an illustration, but we got away from that.

Mr. Cohen: I am sorry I spoke. I reminded you.

What I wanted to do is draw your attention to the difference between clauses 10 and 11 on the one hand, and clause 12 on the other. Clause 10 deals with this whole concept of parliamentary approval. Clause 11 contains the mechanisms for doing this, and it is couched, as Mr. Coulombe was explaining, in the form of a negative resolution. Paragraph 12 is anticipatory. We have really been discussing clause 11, not clause 12. Clause 12 is contemplating a point in time when each chamber will have established its own set of procedural rules for handling this concept of both affirmative and negative resolutions in terms of the Interpretation Act. What we have tried to do here is anticipate that when the houses have established their own rules, those rules will apply, and clause 11 will no longer do so. Clause 11 is an interim step, which will function until the procedural rules have been ironed out and evolved in the two chambers.

We have presented our own set of temporary rules which will fall when the two chambers have their own. Then clause 12 will take effect.

The Chairman: Any questions?

Senator Lang: As a member of the Senate Committee on Standing Rules and Orders, Mr. Chairman, I must say that

I never heard of that committee being apprized of these contemplated changes in the rules. What makes you think, Mr. Cohen, that there are going to be changes in the house rules?

Mr. Cohen: It is my understanding that that is the case, senator. We are always at a handicap in this regard. This is a Department of Justice, or house leader's exercise, I suppose; not ours. We are certainly not involved in any way, shape or form in the area of house rules. I suppose we have had this discussion many times before this committee, in fact, concerning approvals of this sort, and it has always been my impression that there was an attempt being made to develop a clear-cut set of rules as to how to handle what are loosely called negative and positive resolutions, and it is my impression that those rules have yet to be spelled out. Certainly in the other place they are not spelled out, and I know they are seeking some sort of solution.

Senator Lang: The Senate rules committee has never heard of it.

Mr. Cohen: I do not want to get into the middle of a procedural debate.

Senator Hays: There must have been examples that would cause you to initiate such changes over the years. Could you give us some real examples of the kind I mean?

Mr. Cohen: Of changes in treaties? You are not talking about the procedural mechanisms, but the substance of the treaties?

Senator Hays: Yes.

Mr. Coulombe: Senator, the best example I can give is an amendment that we had to consider in the treaty that we have with Finland. We have a tax treaty with Finland, and a few years after its conclusion Finland introduced a new tax called the "sailors' tax." This is a special income tax covering sailors in the merchant marine, which replaced the ordinary Finnish income tax in respect of sailors. In terms of our agreement with Finland this tax was, of course, not covered, because it did not exist at the time we concluded the treaty with Finland.

The Finns, in 1965, I think it was, came to us and said, "Last year we introduced a new tax called 'the sailors' tax.' It is identical to the ordinary income tax, but applies only to sailors, and has special rules, because sailors have a different way of earning their living. They may be away from home for two years on a long trip, or something like that. We would like this tax to be covered by our tax treaty so that if a sailor comes to a Canadian port and stays there for two months on a holiday, or something of that kind, he does not get himself outside the protection of the Canada-Finland treaty."

At that point, if we agreed that there was no doubt that this tax should be covered, we first of all would have had to negotiate an amendment to the treaty between the two countries and sign a supplementary agreement. Then we would have had to come to Parliament and get the Department of Justice to draft a bill called, "An Act to Implement a Supplementary Convention with Finland," blah, blah, blah. A whole set of rules would have come into play to get the house leader to give the Minister of Finance time in the house to introduce a bill, which would be only two clauses long, saying that section 1 of the Canada-Finland treaty was amended by adding thereto the sailors' tax.

This is the type of problem that we have had in a few instances. In fact, we have had it about five times, senator, in the last few years. At that time we had only 16 treaties, but with 40 or 45 or 50 treaties coming into force in the coming years, we felt that if we had to take the time of honourable senators and of the other place to ask them if we should cover a sailors' tax, or an entertainers' tax, or some other change of this kind, which, really, are all of a purely technical nature, this would not be a very efficient way of proceeding. We thought that perhaps we should try to devise a more practical way of dealing with the sailors' tax of Finland, to take my example again, which, however, is a real one. We thought we should say, "The governor in council can look at that and say, 'Undoubtedly Parliament would have no objection to that, so let us do it by decree.' However, let us not prejudge parliament's intentions. They may not like the sailors' tax, and so we will arrange to table it in Parliament and let Parliament have 30 days or 60 days to look at it and decide whether they want it or not. If they do, they have nothing to do, they just let the time elapse, and at the end of that period the convention is effective in Canada, and the new sailors' tax, or whatever it may be, is effective. If Parliament does not like it, then they will pass a negative resolution saying, "We do not accept the proposition that the sailors' tax should be covered," and then it is just not covered.

Senator Hays: What is the mechanism for doing this? Members of Parliament read the act that is tabled and then say, "We object to this," perhaps, and then they go to the minister involved, I suppose. But how does the rest of it work?

The Chairman: I am not sure that that is exactly it. I think, under this bill, in relation to supplementary agreements, the Minister of National Revenue may cause regulations to be made. It is those regulations that may ultimately become the subject of a resolution of Parliament, if each house has rules for getting it before the house and producing a negative resolution, which amounts to a repeal of that regulation. Is that correct, Mr. Cohen?

Mr. Cohen: I am not sure that we get into a regulation, but I think in substance what you are saying is correct, senator.

The Chairman: Clause 10(3) says:

(3) The Minister of National Revenue may make such regulations as are necessary for the purpose of carrying out any supplementary agreement approved under subsection (1) or for giving effect to any of the provisions thereof.

Mr. Cohen: I think those are the administrative regulations, rather than regulations which concern approval of the supplementary agreement itself.

The Chairman: It does not qualify them.

Mr. Cohen: It talks of "for the purpose of carrying out any supplementary agreement".

The Chairman: Yes "any supplementary agreement".

Mr. Cohen: The question is the validity of the supplementary agreement itself.

Senator Hays: There is something I am not quite clear on, Mr. Chairman. It often happens that something is advertised, and if no one objects it automatically becomes law. This is how the oil tax used to be. If you did not pay

your tax you lost your rights. If this happened, people would say that nobody reminded them to pay, but the answer always was, "They were tabled, why did you not read them?" This chamber should be concerned about being sure that people do know about these things.

The Chairman: Well, there is provision that an order made under section 10—that is the supplementary agreement section—shall be laid before Parliament not later than 15 days after the decision.

Mr. Cohen: That is exactly the point.

The Chairman: So you get notice in that way, and then it is published in the *Canada Gazette*. So that is the starting point, and Parliament has to pick it up from there.

Mr. Cohen: Exactly. That is, if it wants to, but it can also spare itself by saying nothing. And if it says nothing, then it will come into force in due course.

Senator Connolly: And if Parliament wants to take action, does it proceed by way of resolution or must there be a bill?

Mr. Cohen: No, senator. That is the whole point.

Senator Connolly: Well then, this resolution refers to the point you were raising in another context last night, Mr. Chairman.

The Chairman: Yes, a negative resolution, in the interest of saving time. Frankly, I would have to be a greater mathematician than I pretend to be to figure out what time you would save by having enabling legislation and having both houses meet to discuss the legislation and the regulation and settle on some form of negative resolution. There would undoubtedly be committee hearings.

Mr. Cohen: Well, Mr. Chairman, taking the example Mr. Coulombe was talking about, the sailors' tax, you might look at it in your technical capacity in this committee either formally or informally and decide that it is purely a technical matter, and having made that decision quickly, you then need to do nothing and the supplementary agreement, after 30 days from the time it is tabled in this chamber, would come into force. There need not be any formal hearings or any passing of anything. But what this contemplates is that if you do not like what you see—and we hope you will always like what we put before you—but if you don't like it, then you have to do in effect what you might otherwise have had to do with a bill, that is to say, pass a resolution. But if you like what you see, then you need take no formal steps.

The Chairman: Well, if I apply that to the illustration which you gave of Finland, where you described it as a technical change required because of the language used—a change in the designation of what the tax is and its application—that would not take too much time.

Mr. Cohen: You mean, as a bill?

The Chairman: Yes.

Mr. Cohen: Well, Mr. Chairman, you are far more experienced in this than I am, but it has been my experience that a bill, even a simple bill, poses a long procedural problem. Another difficulty is that it does indeed take time to pass a bill through both chambers and the way these treaties are structured, they are not in force until an amending bill has received royal assent.

Senator Connolly: Actually, Mr. Chairman, we have a very bad record in this Parliament so far as treaties are concerned. Sometimes we get treaties for approval by Parliament that are 10 or 15 years old; they just never get there. I don't know whether the housekeeping in the Privy Council Office makes it impossible for them to get there because of the legislative load. So I think this device of saving parliamentary time is important to us, and it still does not preclude Parliament from availing of its opportunities.

The Chairman: Except the basis of your statement, Senator Connolly, was the delay in treaties coming to Parliament. That does not improve that situation.

Senator Connolly: No, but this will. I think the record in the past has been bad. I don't say it has been bad recently, but you can remember over the years we have had treaties coming before the Senate for approval and sometimes they have been 10 years old.

The Chairman: And my job used to be to explain them, and some of them were pretty ancient.

Senator Hays: How do other countries handle this problem—the United States, Finland and so on?

Mr. Cohen: I don't know, senator, if I can speak authoritatively on that.

Senator Hays: But when you were preparing this, did you look at that at all?

Mr. Cohen: Most countries have a mechanism of one sort or another to deal more efficiently with this issue than bringing back the matters to legislative chambers.

Senator Hays: But why would you not have looked at them?

Mr. Cohen: I just don't recall.

Senator Connolly: The American system is quite different. For example, I think a treaty has to be passed by a two-thirds majority of the United States Senate.

Mr. Cohen: The original treaty. But here we are talking about how to amend them. I think most countries do have a mechanism for amending their treaties in an efficient way.

Senator Connolly: It is largely procedural.

Mr. Coulombe: Yes, that is right, senator. But the country at whose mechanism we decided to give the closest look was the United Kingdom because of the obvious similarity in the two systems. We found to our great surprise that in the United Kingdom the original tax treaty does not even go before Parliament. It is strictly a decree of the executive; it is a statutory instrument. It never goes before Parliament as a bill. That was a great surprise to us. But we decided we could not do that, because for one reason or another we still think that Parliament should have an opportunity to see the treaties before us today. However, we looked at the United Kingdom procedure a step further, and saw that when they wanted to amend what was in fact a statutory instrument in the first place they, of course, had to take a simple Order in Council of decree of the executive and do exactly what we are doing now—provide for this order by the Governor in Council to be tabled in the House of Commons and in the House of Lords and give a chance to Parliament to look at these amendments and

say whether they like them or not. So in fact we have in this particular aspect adopted the United Kingdom system as is, except that we did not start quite as far back as they did. We did not go for a statutory instrument or Order in Council in the first place. We left Parliament in full control of the original treaty.

The Chairman: I suppose you could say that this convention and the enabling legislation goes further and gives more information and control to Parliament than has existed up to the present moment.

Mr. Coulombe: Under the Canadian system, Mr. Chairman?

The Chairman: Yes.

Mr. Coulombe: It certainly does not detract from the rights of Parliament. I do not know if I could agree that it adds, but it certainly does not detract. I think it preserves the same opportunities.

The Chairman: It does a little more than that. For instance, a treaty may be brought in two or three years later, but here you are subject to time limits and it must be currently dealt with.

Mr. Cohen: That, from our point of view, is desirable.

The Chairman: So it does represent some advance.

Senator Macnaughton: You are trying to assist Parliament.

The Chairman: There are times when some people might acknowledge that that is desirable.

Senator Hays: Did you look at any other countries?

Mr. Coulombe: Yes, we did. We had a look at the French system, and we found that that system is exactly the same as ours will now be if this bill is implemented, in that the original convention in France has to be tabled in the Senate and the National Assembly and become law. Then an amending document or a supplementary agreement or amending bill is simply what we would call an Order in Council and is again tabled in both houses. So this is exactly the French system.

The Chairman: The three treaties in this bill, are they the first three arising out of the new tax bill, Bill C-259?

Mr. Cohen: Yes, that is the number. And the answer to your question is yes. These are the first three treaties brought before Parliament since the tax reform.

The Chairman: And I see in a note that I have that there are some 36 countries with which Canada is carrying on negotiations for treaties.

Mr. Cohen: That is right.

The Chairman: With the rate of progress it is going to take a long time to get through all 36. In the meantime the provisions of the statute apply.

Mr. Cohen: That is correct, senator.

The Chairman: I notice, for instance, that the French treaty, which is the first in this group, was signed in 1975.

Mr. Cohen: That is right, senator.

The Chairman: Was that before or after the FAPI rules started to apply?

Mr. Cohen: Before. The FAPI rules came into effect the 1st of January, 1976.

The Chairman: That is right. With respect to any treaties you negotiate from here on in relation to FAPI, either the Canadian taxpayer is going to be stuck for the period between January 1, 1976, and the date of the treaty, or you are going to have to put some retroactive provision in the treaty.

Mr. Cohen: That is not necessarily so, senator. The FAPI rules are really a function of our domestic statute. They are really not germane to the treaties per se. It is true that they impact upon Canadian operations abroad, but they are really a function of our domestic statute and we are taxing the Canadian parent company in respect of some foreign operations. Really the treaty does not do anything one way or the other vis-à-vis the FAPI rules.

The Chairman: Under the FAPI rules, if you have a multi-national corporation carrying on business in France, for example, then so far as the income which the holding company in Canada would receive from the business operations it could bring that home under our law free of tax.

Mr. Cohen: That is correct, senator, but . . .

The Chairman: May I take the other half of it? If the business abroad is an investment operation, then, whatever is done with the income earned in the investment operation abroad in that country where the company is located, that income has to be brought into the income of the Canadian holding company.

Mr. Cohen: Exactly.

The Chairman: That is the general law now.

Mr. Cohen: That is right, and the treaty really does not affect that.

The Chairman: What good is the treaty if it does not, supposing the treaty is to avoid double taxation?

Mr. Cohen: That is right, senator. If I may make several points on this, let me go back to the first point you made, that is, the capacity to bring back dividends from abroad tax-free in Canada. That is not a function of FAPI. That indeed is a function of the treaties, and as soon as we have reached a point in time where the treaties are far enough advanced we will prescribe that country so that a multi-national with a foreign operation in that country can repatriate its dividends exempt from Canadian tax, in effect as it used to do under the section 28(1)(d) of the old Income Tax Act. That is directly a matter of the treaty.

Senator Connolly: They can repatriate them under the treaty free of tax in the foreign country.

Mr. Cohen: It is not under the treaty per se, senator. What we have said is that if we have a treaty with that country that must be a country which has a tax system which is comparable to ours. In that set of circumstances we will permit a subsidiary to pass its dividends back to Canada free of tax under our domestic legislation. You do not find that in the treaty per se. That is a function of our regulations which flows out of our domestic statute. On December 30, 1975, the Minister of Finance issued a statement saying that negotiations had proceeded apace sufficiently with respect to some 35 countries so that we would prescribe all 35 of those countries. I have a copy of

that press release which I am sure honourable senators have seen.

Senator Connolly: What authority do you have to prescribe them?

Mr. Cohen: Our domestic statute.

The Chairman: Let us apply it to one of the treaties here. Let us apply what we have been talking about to the French treaty.

Mr. Cohen: Yes.

The Chairman: Then discuss FAPI and the repatriation of dividends from investment operations abroad by a Canadian holding company. What happens?

Mr. Cohen: If there is a multi-national with a foreign subsidiary with investment income, we will tax the Canadian parent on that foreign investment income. We will treat it as if it was earned right here in Canada, included in its income right here in Canada regardless of whether or not there is a treaty. The presence or absence of a treaty does not affect that particularly. That is the important point.

The Chairman: My question was, how will it be treated under the French treaty? Is there a tax on this dividend income in France?

Mr. Cohen: The dividend income when it leaves France and comes back to Canada net of the FAPI tax—and let me get right down to cases, let us take \$100 of pure investment income earned in a French subsidiary which is unrelated to any active business activity of this multi-national. It has simply taken some money and put it into its French subsidiary and put it in a bank in France and it has no business connection whatsoever.

Senator Connolly: It is passive income.

Mr. Cohen: Passive income. Thank you, senator. We will tax that in the hands of the Canadian parent under our domestic legislation. Let me use simple numbers. Suppose the tax is 50 per cent and there is now \$50. There is indeed \$100 still sitting in the French subsidiary, but we have collected \$50 from the Canadian parent because we have said, in effect, that that has no business connection so why should they be able to shelter it offshore.

The Chairman: You collect tax on \$50?

Mr. Cohen: No, we collect tax on the \$100.

Senator Hays: You collect 50 per cent of the \$100.

Mr. Cohen: But the \$100 is still sitting there in the subsidiary, because we have taxed the Canadian parent whether or not it brought its money home. So there is \$100. That has now become, in effect, tax-paid income because we have already taxed it here and collected it. Whether there is a treaty or not, when that money flows back to Canada we will bring it into income but we will give relief for the \$50 we have already collected. So there is no real differential in that set of circumstances.

Senator Connolly: Quite apart from any tax imposed by France for earning it there.

Mr. Cohen: Except to the extent that we give credit for the French tax.

Senator Connolly: The relief you were giving in your example was credit for the Canadian tax. If there was a French tax as well on that \$100, you would also give credit on that.

Mr. Cohen: Of course.

The Chairman: That is the answer. Right.

Senator Connolly: How many more treaties have you to negotiate?

Mr. Cohen: It depends on what you mean by "negotiate," senator.

Senator Connolly: Well, "bring up to date".

Mr. Cohen: I suppose the list is endless, in a sense. We would really like to extend our network as far as we can so that as many countries are included.

Senator Connolly: With comparable tax systems.

The Chairman: There are 36 countries within which to negotiate treaties, are there not? I have a list of them here.

Mr. Cohen: There are 36 countries with which we already have negotiated treaties. Either we have a treaty with them already or we have negotiated. By "negotiate" all I really mean is that, in effect, we have a deal at the official level. It has yet to be approved by cabinet, signed and brought before Parliament and implemented and so on and so forth. We have negotiated in the sense of coming to a deal at the official level, my colleague and I, with 36 countries. There are probably 20 to 50 more countries in the world which have appropriate tax systems with whom we would want to negotiate a treaty and with whom we trade. Why do you have these treaties? To facilitate trade back and forth. So the list is endless. But I would say to you, senator, that we have made, frankly, what I consider to be excellent progress in this field. We are nearing the point where we can function comfortably. In other words, we now have negotiated treaties with most of the countries with which we do indeed have financial or trading relationships. There is a number of them that are still in progress. We could possibly, within another three months, add another eight or 10 countries to this list, and we will do so.

Senator Connolly: That is a great convenience to Canadian investors with foreign investments.

Senator Desruisseaux: Have we any such treaties with Russia and China?

Mr. Cohen: We do not have any yet, senator. We are talking to some of the eastern European countries who are interested. We have had formal meetings with Romania, and as a matter of fact, Romania is on the list. We will be talking to other eastern European countries very soon. They are interested.

Senator Connolly: How much do your people come into these negotiations? Or is it all done by External Affairs?

Mr. Cohen: No. It is all done by us.

Senator Connolly: Do you have an External Affairs man working with you?

Mr. Cohen: From time to time, yes. They are always notified, and they are always free to have someone accompany us.

Senator Connolly: Do you have to go abroad, or do they come here?

Mr. Cohen: Mr. Coulombe told me he was out of the country last year some seven months.

Senator Connolly: Then that is the answer. Nice work if you can get it!

Mr. Coulombe: If you are not married.

Mr. Cohen: It sounds exciting, senator, but it is very, very tiring. In fact, it depends on the circumstances. Sometimes we can negotiate in one round, and we will go there, or they will come here, and that is the end of it. For other, more important treaties we require three, four or even five rounds.

The Chairman: I suppose it depends on how sophisticated they are.

Mr. Cohen: You would be surprised at how much sophistication there is in some of the countries where you would least expect it. Normally what happens is that if there are two rounds, one will be here, and one will be there. If there is one round, it is just a question of convenience, and of whether their delegation wants to come here, or ours wants to go there. It all depends. There is, however, a great deal of travelling involved in it. Mr. Coulombe does most of that.

Senator Lang: Mr. Chairman, when this bill was before the Senate, questions were raised from the other side of the chamber in connection with the federal exercise of treaty-making power in taxation areas, and how it relates to the provincial tax collection system, and particularly, of course, as to how it would relate to Quebec, where they collect their own income tax.

Mr. Cohen: I do not know how to answer that, senator, without making it very complicated. To start with, we do not purport, in our treaties, to cover provincial tax laws, for obvious reasons. All of the treaties indicate in the charging section, as you might call it, who they will apply to, and you will never find the provincial income tax laws there. That is point one.

Senator Desruisseaux: Before you go to point two, do you have conversation or meetings with the provincial side?

Mr. Cohen: That would be point 3, if I can get to that in a moment, senator.

Those provinces that are within collection systems are, to some extent, automatically involved, because their tax base is the same as ours, so that when we agree with a foreign country that we will include something, or not include something, in the tax base, they are automatically involved in the upshot of it. We have not had any adverse comment from those provinces within the collection systems. They seem to be quite prepared to go along with that in general terms.

I do not want to overstate this. With respect to Quebec, on both personal and corporate tax, and with respect to Ontario on corporate tax, where they run their own systems, we have tried to stay in communication with these two provinces in order to keep them apprized of what we are doing, and we have every expectation—perhaps it is just a hope—that they will keep their laws in conformity with what we are doing. We do not involve provinces in the actual negotiations at the table, but we have discussed

the treaties in general terms well in advance of starting. This was two or three years ago. It was a sort of general discussion.

With regard to Quebec and Ontario, we have indications that these two provinces will continue to do what they have always done. They have always drafted their laws in recognition of what we have given up in the treaties.

Bear in mind that the treaties are relieving. We never add to the tax burden through the treaty. That has always been one of the unwritten ground rules. The purpose of a treaty is twofold. One is to make sure that people do not escape tax by falling between two countries, but more importantly, it is to make sure that there is no double taxation. The main thrust of a treaty, therefore, is relieving, and Ontario and Quebec have both been very co-operative in emulating what we have done in our domestic law, or in the treaty, so that a situation does not arise where you get no double federal taxation, but where there is still double tax by virtue of a provincial tax system operating. We have never had really serious problems over that.

Senator Desruisseaux: Do we have in our treaties the same general lines as, for instance, the United States have in their treaties, concerning double taxation?

Mr. Cohen: In principle, yes, senator. Countries have different interests, obviously, in the negotiation of their treaties. The United States is a capital-exporting country, and so their basic position is really one of trying to get everybody else's taxes lowered, since most of the flow is back to the United States. The dividends come back to the United States, the interest comes back to the United States, and so they are what we tend to call in the trade a capital-exporting nation. As a consequence of this they have a particular interest in trying to get the best deal they can in foreign countries for their multinationals, if you will.

Senator Desruisseaux: Do we do that?

Mr. Cohen: Our position is a little more delicate. We are what we would call a mixed breed. In some respects we are like the United States, a capital-exporting country. We have a host of multinationals, and in respect to those multinationals we do the best we can to get the best deal from other countries for them. At the same time, of course, we are a major capital-importer, if you look at the United States, and there we are trying to protect our own revenue and our own local corporations. We are therefore trying to walk on two sides of the street, depending on what country we are negotiating with.

The Chairman: It would help if you could keep the street very narrow.

Mr. Cohen: It is difficult, because there are really conflicting positions.

The Chairman: Did capital gains represent any problem in the negotiation of these three treaties?

Mr. Cohen: Not in these three, no.

The Chairman: What is the general principle?

Mr. Cohen: It is hard to answer that, again for the reasons that I just spoke about. Different countries have different perceptions of this thing, and there is really no international norm. The two great bodies of philosophy on this thing are, first, the OECD countries, which are all

basically capital exporters, looking to have as little capital gains taxation in the source country as possible.

The other body of thought one could describe as the developing countries. They are basically capital importers, and they want to tax everything in sight within their own borders. They are very tough about questions such as capital gains and rates of withholding tax, for perfectly understandable reasons.

There is, therefore, no single international norm. Rather, there are really two of them. There is the OECD position, if you will, and that of the developing countries. We try and wander down the middle between the two.

Senator Desruisseaux: But have the Canadian multinational companies somehow contested some of these treaties? I was made aware recently that one of them, a very large one, intended to move its headquarters from Canada because of something that happened, and I was wondering whether that would be the case.

Mr. Cohen: That may well be, but it would not be as a result of the treaties. That situation may have resulted from tax reform and, indeed, in the early years after tax reform there were one or two companies that were talking of moving out of Canada, not because of the treaty, but because of the problems Senator Hayden was raising a moment ago, such as FAPI. I think it is fair to say that we have come to terms with most of those situations, and I am not aware of any major company talking today about moving out of Canada. There was a good deal of compromise that took place with respect to the FAPI rules, and certain other provisions, and I would say that a *modus vivendi* has been established.

Senator Desruisseaux: Does this imply that our treaties are as good to our people as treaties of, let us say, the United States are to theirs?

Mr. Cohen: I think so, senator. We have tried to get the best deal we can for our Canadian multinationals. It is difficult, however. It is a negotiation, not a discrete act within Canada where it is only we ourselves who have to cope with it. There is somebody else at the bargaining table. He has his interests, just as we do. We seek the best deal we can, and sometimes we do well, and sometimes not; but the single most important thing for the Canadian multinational is the ability to bring back his dividends tax free.

The Chairman: These treaties are called treaties for the avoidance of double taxation. Unless an item is specifically dealt with in the treaty, is that description just words without meaning?

Mr. Cohen: No, senator, I don't think so.

The Chairman: If I could establish in France that as a result of something in their law and our law I am subject to double taxation, and the item is not specifically covered in the treaty, what is my position then? Do I just pay?

Mr. Cohen: Well, senator, again it is a complex answer, but I think the key to the double tax question is the foreign tax credit. That is not a total answer, but in the large majority of cases the key to the double taxation question is that the country of residence would give a foreign tax credit for what the country of source has done. This is not a major problem for Canadian multinationals because we offer a foreign tax credit right in our domestic statutes, in any event. But many countries we deal with do

not have a foreign tax credit automatically in their domestic legislation, and so we try to extract in the course of our negotiations a guarantee that there will indeed be a foreign tax credit granted. What that is really protecting, senator, is the foreigner who is investing in Canada and paying Canadian tax. We are ensuring that he gets from his own country a foreign tax credit for the Canadian taxes he has paid. But in the reciprocal of that, it is not a major problem, because we offer the foreign tax credit in any event for all Canadians who have foreign activities. So in the large sense we are really protecting foreigners who invest here and making it more attractive for them.

The Chairman: Well, Mr. Cohen, this is a general question. We have three treaties before us this morning, concerning France, Belgium and Israel. Are there any major differences in the provisions in those three conventions?

Mr. Cohen: Major differences from what?

The Chairman: From the point of view of the Canadian dealing with any one of those countries?

Mr. Cohen: No, they are basically similar treaties. They reflect the Canadian position in large measure. The only unique feature would be in the Israeli treaty where we have recognized what is called tax-sparing provisions as part of our foreign tax credit. This is the first instance of this tax-sparing provision, but there will be many, many more in future treaties coming before you that will look like that.

Senator Macnaughton: Could you describe that?

Mr. Cohen: I am going to, senator. What this means in concept is that the state of Israel has provisions in its own domestic law which say that if you invest in certain areas—it is rather like a regional development program—under what they call pioneer legislation and if you go into the desert and you put a plant there, then they will not tax you; they will give you a tax holiday for five years or ten years or for eternity. One of the difficulties in that situation is the fear that the foreigner who goes in and does that to suit the country's own economic development objectives will lose all his benefits because what he does not pay to the Israeli Government, he will end up paying to us, because we will take that income stream and we will give credit only for the foreign tax and apply our tax to the balance.

The Chairman: Then, in fact there is no credit.

Mr. Cohen: Well, I can give you some numbers. Suppose there is \$100 interest flowing out of Israel as a result of a loan in a pioneer development area. If Israel puts on 40 points of tax and our domestic rate is 50, then we would say there is \$100 of income, our basic tax is 50 and the Israelis have taxed 40 so we should get 10. So they get 40, we get 10 and the investor keeps 50. But if in a pioneer development situation the Israelis did not take the 40, then there is no credit and therefore we will take the whole 50 and the whole purpose is being defeated. Nobody is going to make this investment in this risk area. So what we have done with the Israeli Treaty and what we will be doing in many similar situations is that we will pretend that, for example, the State of Israel has collected the 40 points and we will give the taxpayer credit for the \$40 as if he had paid it. That notion is called tax sparing. There are an infinite number of varieties on that theme, but in its simplest form it is merely pretending that tax has been paid so that we will collect 10 points and give this notional

credit for the amount not paid. So the company will keep \$90 and the only tax will be the difference between 40 and 50. That is the tax-sparing provision and that is the innovative feature.

The Chairman: Have you settled on a definition or a description of this area in which this rule will apply?

Mr. Cohen: Yes, Mr. Chairman, in the Israeli treaty, as you have seen, it is very carefully spelled out. These are always dealt with on a case-by-case basis. We will try to examine their legislation—not to cast a judgment on their economic policy—but to make sure that this legislation fits a general set of criteria.

The Chairman: To ensure that it is pioneering.

Mr. Cohen: Yes, to make sure that it is pioneering.

Senator Macnaughton: Do you have a reference to that?

Mr. Coulombe: Yes, senator, on page 70 of the bill, Article XXIII, paragraph 2(c). At the bottom there we enumerate sections 45, 46 and 47 of certain laws, and we have studied those laws.

Senator Macnaughton: You would not consider withdrawing the 15 per cent foreign withholding tax, would you?

Mr. Cohen: Well, at any rate the Israelis would not accept.

Senator Macnaughton: But I am speaking generally of the Canadian 15 per cent foreign withholding tax.

Mr. Cohen: Well, senator, that is a gut policy issue, and it has certainly been the decision of the government to try to protect that.

The Chairman: We may have a chance of doing it at some time.

Senator Macnaughton: If we live long enough!

Mr. Cohen: The question is whether or not it is fair. You know much of this comes into what we call the fiscal transfer argument. If we give up our 15 per cent, will the other country end up taxing it? A lot of this is ebb and flow, and what we don't take the other country will take.

The Chairman: Why don't you apply something akin to the pioneering principle to a situation like that?

Mr. Cohen: I don't know if the countries we negotiate with will be favourable.

Senator Macnaughton: You would get a lot more capital in this country.

Mr. Cohen: Well, that is an interesting question, senator. Can we be sure that we would?

Senator Macnaughton: Well, if it works for Israel, why would it not work for us?

Mr. Cohen: I am not sure that they are comparable situations. I am not sure, first of all, how much the Israelis get as a result of that. They believe deeply in it as many other developing countries do. And there certainly has not been a dearth of capital investment in Canada in the last 20 or 30 years.

Senator Cook: We are trying to shut it out now one way or another.

Senator Lang: Mr. Chairman, I was wondering about this 25 per cent withholding rate that is now coming on in January, 1976. With all these conventions waiting to become law, what sort of problems are going to be created by this?

Mr. Cohen: That is a more contentious problem, senator. There is no question about the fact that 25 per cent is in our domestic statute, the Income Tax Act, and it only turns down below 25 when we actually bring into force the treaty. It will be difficult for those countries with which we do not have an existing treaty. We have about 16 now, and when this bill goes through there will be about 18 or 19—no, 18, because one of these is just in amendment. These do indeed represent most of the sources of our capital debt, the capital that you are talking about. Most of it is the big-money countries we already have treaties with the United States, the United Kingdom, Japan, France, Germany. Most of the big investors we do have treaties with.

The Chairman: May I interject? I was going to suggest to you, Mr. Cohen, why could we not apply this notional tax idea to the situation with respect to the credit for withholding tax, for instance? That is, that if you permit a Canadian who receives income by way of dividend you permit him to deduct what he may have to pay in the country of origin, is that right?

Mr. Cohen: That is the foreign tax credit, yes, indeed.

The Chairman: So you start out then that the Canadian has received a credit for tax that he pays abroad.

Mr. Cohen: Yes.

The Chairman: Then he should be even with the country abroad. There should not be any further tax.

Mr. Cohen: It depends on the rate in the country abroad, senator.

The Chairman: Yes, but to the extent that the rates are different and the rates are higher in the country abroad, he is still paying tax there and in an opposite situation he might be paying some tax here.

Mr. Cohen: Yes, indeed. I am not sure that that is inappropriate. If he puts his money in the Bank of Commerce, we will tax him at whatever his marginal rate is or, if it is a corporation, at 46 per cent. Why should he have a better tax treatment if he puts his money in a U.K. bank?

The Chairman: I was not discussing that point.

Mr. Cohen: But that is the fall-out of what you are speculating on.

Senator Hays: How do you treat interest from developing countries? How do we treat it, for instance, when we loan India \$100 million to buy a reactor, or we loan Uganda \$7 million?

Mr. Cohen: That is the Government of Canada?

Senator Hays: Yes. How do these countries treat the returns?

Mr. Cohen: That is intergovernmental and is exempt. They do not tax it. They do not apply withholding tax against loans from the Government of Canada.

Senator Hays: These are negotiated at the time the loan is made?

Mr. Cohen: It is also a concept, which is nowhere written down but has been in the air for a long time, the doctrine of sovereign immunity, that one state does not tax another state. That underlies it and gives it a philosophical underpinning, but, in effect, if some country purported to deny that doctrine, then, you know, they would not get the loan from the Government of Canada, or the rate of interest would be such that we would be taking into account the fact that the tax was there. Most countries, when dealing with other countries as opposed to private lenders, do not tax each other.

The Chairman: Are there any other questions?

Mr. Cohen: As Mr. Coulombe reminds me, we do put that in our treaties. We enshrine it there.

The Chairman: Are there any other questions on the three treaties?

Senator Connolly: No, senator. We have had a good discussion this morning.

Mr. Cohen: Thank you, senator.

The Chairman: Are you ready for a motion to approve the bill?

Senator Connolly: I move we report the bill without amendment.

Hon. Senators: Carried.

Published under authority of the Senate by the Queen's Printer for Canada

Available from Information Canada, Ottawa, Canada



FIRST SESSION—THIRTIETH PARLIAMENT

1974-75-76

THE SENATE OF CANADA

PROCEEDINGS OF THE

STANDING SENATE COMMITTEE ON

BANKING, TRADE AND COMMERCE

The Honourable SALTER A. HAYDEN, *Chairman*

Issue No. 79

WEDNESDAY, MARCH 10, 1976

Fourth Proceedings on:
"Canadian Textile Problems"

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Barrow	Hays
Beaubien	Laird
Buckwold	Lang
Connolly	Macnaughton
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
Everett	Smith
*Flynn	(Colchester)
Haig	Sullivan
Hayden	Walker—(18)

**Ex officio* members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, May 27, 1975:

"Pursuant to the Order of the Day, the Senate resumed the debate on the inquiry of the Honourable Senator Desruisseaux calling the attention of the Senate to Canadian textile problems.

After debate,

The Honourable Senator Asselin, P.C., moved seconded by the Honourable Senator Choquette, that the subject-matter of the inquiry be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, March 10, 1976

(102)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 10:45 a.m.

SUBJECT: "Canadian Textile Problems"

Present: The Honourable Senators Hayden (*Chairman*), Beaubien, Connolly (*Ottawa West*), Cook, Desruisseaux, Hays, Laird, Lang and Macnaughton. (9)

Present, not of the Committee: The Honourable Senator Lafond. (1)

Following discussion and upon motion of the Honourable Senator Macnaughton, it was *Resolved* to increase the printing of the Committee's proceedings from 800 copies in English and 300 copies in French to 1000 copies in English and 400 copies in French; it was further *Agreed*, that in order to fulfill any requests made therefor, that permission be granted to the Clerk of the Committee to photocopy sufficient numbers of prior issues.

The Committee then proceeded to the consideration of the subject-matter.

WITNESSES:

The Textile and Clothing Board:

Mr. Gordon L. Bennett, Chairman;

Mr. Jacques St. Laurent, Member;

Mr. John M. MacKillop, Executive Director; and

Mr. Emile Carrier, Secretary.

At 12:15 p.m. the Committee adjourned until 2:30 p.m. this day.

2:30 p.m.

(103)

At 2:30 p.m. the Committee *resumed* consideration of the above subject.

Present: The Honourable Senators Hayden (*Chairman*), Beaubien, Buckwold, Connolly (*Ottawa West*), Cook, Desruisseaux, Hays and Macnaughton. (8)

WITNESSES:

United Textile Workers of America:

Mr. Vernon Mustard, Canadian Director; and

Mr. R. Myslowka, Regional Director, Ontario and Maritimes.

Textile Workers Union of America:

Mr. George C. Watson, Canadian Director, Don Mills, Ont.;

Mr. Ed Seymour, Canadian Publicity and Education Director;

Mr. Clare Easto, Joint Board Manager, Hamilton, Ont.; and

Mr. Vic Skurjat, Joint Board Manager, Toronto, Ont.

The following witnesses were also present:

Canadian Textiles Institute:

Mr. J. I. Armstrong, President, Canadian Textiles Institute;

Mr. R. H. Perowne, Chairman and Chief Executive Officer, Dominion Textile Limited;

Mr. W. J. Berry, Director, Economic Services, C.T.I.;

Mr. F. P. Brady, Vice-President and General Counsel, Dominion Textile Limited;

Mr. A. J. Fyfe, Vice-President and General Manager, Wabasso Limited;

Mr. F. S. Kenny, Director, Government Relations, DuPont of Canada Ltd.;

Mr. J. M. Robertson, Director, Industrial Relations, C.T.I.;

Mr. E. W. Young, Executive Assistant to the General Manager, Wabasso Limited;

Mr. N. Chandler, General Manager, Zephyr Textiles Ltd.; and

Mr. W. Cowling, Director and General Manager, Courtauld's Canada Ltd.

At 3:50 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,

Clerk of the Committee.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, March 10, 1976

The Standing Senate Committee on Banking, Trade and Commerce met this day at 10:45 a.m. to consider Canadian textile problems.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, we are continuing this morning our study of the textile industry. Before we call on our witnesses, I should like to have a motion in connection with the printing of additional copies of our proceedings. Apparently the demand has been quite substantial and we are running low. At the present time we have authority to print 800 in English and 300 in French. I would suggest increasing the English to 1,000 copies and the French to 400 copies. May I have such a motion?

Senator Macnaughton: I so move.

Hon. Senators: Carried.

The Chairman: With respect to back copies, honourable senators, I understand from Mr. Jackson that it would be cheaper to Xerox them, and apparently 50 copies of the previous meetings would be sufficient. May I have a motion to that effect?

Senator Macnaughton: I so move.

Hon. Senators: Carried.

The Chairman: Honourable senators, we have before us this morning representatives of the Textile and Clothing Board and we also have the union representatives. Because we had fixed a date with the representatives of the Textile and Clothing Board practically at the beginning, we will hear them first. We will move along as quickly as we can.

Mr. Gordon L. Bennett, chairman of the Textile and Clothing Board, is present. I understand you have an opening statement to make, Mr. Bennett.

Mr. Gordon L. Bennett, Chairman, Textile and Clothing Board: That is right, senator.

The Chairman: Will you proceed, then.

Senator Connolly: Mr. Chairman, we had Mr. Bennett before us when he was the Deputy Minister of National Revenue.

The Chairman: Yes. He is an old friend of this committee's.

Mr. Bennett: Mr. Chairman and honourable senators, I have with me this morning my colleague, a member of the board, Professor Jacques St. Laurent, on the chairman's left, and next to Mr. St. Laurent the secretary of the board, Mr. Emile Carrier. On my right is Mr. John MacKillop,

who is the Executive Director of the board's operations. Our appearance before you supplements the brief submitted by my predecessor to your clerk, Mr. Jackson, last October 20.

The Textile and Clothing Board, one of the major mechanisms in the implementation of the current textile policy, was created by the Textile and Clothing Board Act, which was assented on the 19th of May, 1971. Section 3 of the act makes provision for the Governor in Council to appoint a board of three members, one of which shall be the chairman.

The board is a small organization; its total budget for the fiscal year 1976-77 being approximately \$260,000, and its total staff, excluding the chairman and the secretary of the board, consists of 4 officers and two stenographers.

The mandate of the board is set forth in sections 8 to 21 of the act. These are the principal sections which direct the board's activities. Briefly, any person or company in Canada who produces any textile or clothing goods as defined in the act may lodge a complaint, either personally or through a trade association, when the organization feels that importations of textile and clothing goods are causing or threatening serious injury to production in Canada. Once having received the complaint the board is required to assess the validity of the representations, to hold an inquiry, if necessary, to carry out analytical work in relation to the injury, and finally to prepare a report, with a recommendation to the Minister of Industry, Trade and Commerce. The minister may also ask the board to conduct an inquiry, and the board, of its own volition, may initiate one. Interested parties to any inquiry of the board may include not only producers, but consumers, importers or labour unions representing workers employed in the production of textile and clothing goods in Canada.

Textile and Clothing Board Inquiries and Reviews Completed

Year	Inquiries	Reviews	Total for the year
1971	4	—	4
1972	3	3	6
1973	1	5	6
1974	2	5	7
1975	7	4	11
1976 to date	1	2	3
	—	—	—
Total	18	19	37

Honourable senators, the totals of the inquiries and reviews that this board has completed since it was created in 1971, will give you some indication of the work of the board and of our more recent activities which no doubt have been the result of some of the information which you have already received from your witnesses.

In 1971 there were four inquiries and reviews; in 1972, six; in 1973, six; in 1974, seven; in 1975, 11. In 1976, to date, there have been three.

The Chairman: Did any of the reviews in that list deal with particular aspects of the question that we are studying?

Mr. Bennett: These were all individual inquiries and reviews on products, senator.

The Chairman: On products.

Mr. Bennett: On individual products, individual commodities.

The Chairman: Was the inquiry instituted by some person engaged in the industry, or by reference from the minister?

Mr. Bennett: The first one, to my recollection, was instituted by the minister. Then the following ones were complaints from industry that there was injury, or threatened injury, and the products ranged through the yarn, fabric and apparel sections of the industry.

Senator Connolly: Would you give us the number for 1976?

Mr. Bennett: To date there have already been three inquiries and reviews.

The Chairman: Senator Desruisseaux, the report you showed me this morning was with regard to an inquiry that the board was going to proceed with.

Senator Desruisseaux: Yes. There was a note in the *Gazette* this morning that you were to make a certain textile review.

Mr. Bennett: That is right.

Senator Desruisseaux: Which one was that?

Mr. Bennett: Well, right now we have before us an inquiry, honourable senators, and we have made an announcement of the inquiry on the worsted fabrics. I think that is the one that was mentioned in the paper this morning. There is another one also.

Mr. Jacques St. Laurent, Member, Textile and Clothing Board: May I say, Mr. Chairman, that when Mr. Gordon Bennett referred to the number three, he meant three inquiries completed in 1976. We still have three of them going on.

The Chairman: Your figures are with regard to completed inquiries.

Mr. St. Laurent: Yes.

Senator Desruisseaux: And the one announced in the press this morning is a new one?

Mr. Bennett: Yes.

Senator Desruisseaux: That would be the fourth one.

Mr. Bennett: There will be many. I am speaking as of today's date, not for 1976 in total. Today is only March 10. These are reviews that have been completed.

The Chairman: Yes. Go ahead.

Mr. Bennett: Honourable senators, there is, of course, a time span to each inquiry requested of the board. Once the

formal complaint is received and considered we may announce an inquiry by notice in the *Canada Gazette*. We normally give the industry or other interested parties a period of four to six weeks to prevent the board with written briefs giving information and details concerning the problem which the industry is facing.

The Chairman: At that stage, does the minister receive any notice from the board of receipt of an application for an inquiry?

Mr. Bennett: No, there is no formal notice sent to the minister at that stage.

Senator Desruisseaux: Will we be getting a table of the decisions given in each case, applicable to each of the years 1971, 1972, 1973, 1974, 1975 and 1976?

Mr. Bennett: We would have to prepare that for you.

Senator Desruisseaux: Yes, of course.

Mr. Bennett: I do not have that in my statement, of course.

Senator Desruisseaux: Can this information be tabled here?

Mr. Bennett: There is no reason why it cannot be tabled, if the senators wish it. These are reports that have already been tabled in Parliament, you understand; they are public information.

Senator Desruisseaux: Yes, but if you do not provide it, it means that we have to do the research, and we have a lot of things to do here. You, as the board, know pretty well offhand what goes on, and it should be much easier for you to do this.

Senator Connolly: Senator Desruisseaux, perhaps we could accomplish what you have in mind. I think the chairman has entertained the idea of employing staff, and perhaps if our staff were to get those documents and collate them for us, rather than have the board do it, it might be better.

Mr. Bennett: We can certainly give this information to your clerk, Mr. Chairman.

Senator Desruisseaux: Thank you.

Mr. Bennett: We have found that it takes an association some time to gather all the details necessary from its various members and to arrange data and present a well documented brief. Our research staff, in the meantime, is gathering information from various sources, such as Statistics Canada, Revenue Canada, Industry, Trade and Commerce, and through our own methods of inquiry in order to shorten the time as much as possible after receipt of the formal briefs.

Generally speaking, two weeks after the deadline for receipt of briefs a formal hearing is held. Hearings may be concluded in one day but often take two days in order to give all interests an opportunity to be heard by the board. We also have supplementary private hearings for entrepreneurs who wish to give the board information in private.

The Chairman: Is any record kept of that?

Mr. Bennett: No, we have no verbatim record kept of that.

The Chairman: Is some sort of memorandum made?

Mr. Bennett: Just a memorandum is filed as a result of each hearing.

The Chairman: Is it confidential?

Mr. Bennett: Yes, although at public hearings nothing is confidential.

The Chairman: It seems to pose a problem that some decision that you are going to reach rests in part on the information given to you in private. I suppose what you would have to do then is to discuss with the people who asked for the private hearing and get their permission to make use of it.

Mr. Bennett: Generally, in the official report that the board finally presents to the minister there is nothing that could not be tabled in a public way in the house. That private information which the company gives us is the same type of information that they would give to a taxation officer or to somebody inquiring on behalf of the Department of National Revenue.

After these hearings, the board must sift and clarify evidence generally conflicting, try and reconcile opposing opinions expressed to the board, verify and collate statistical and other data, come to a decision, prepare a report in the two official languages, with a recommendation to the minister. The average time from the announcement of an inquiry or review to the submission of the report is 3.4 months—that is, roughly 3½ months.

Senator Desruisseaux: Could that be shortened somehow?

Mr. Bennett: Only in one way that I can think of, senator, in my very short experience with the board. We could shorten the time which we give to industry to prepare a brief and send it in from, say, six weeks to four weeks. We tried it in one of our recent inquiries, and they appealed to us to loosen up a bit because it is difficult to get all the information together and briefs presented in four weeks. But that is one short period of time that might be saved there. It is not easy to hold hearings any closer than two weeks from the terminal dates for receiving briefs. That is a minimum. The big length of time it takes us after the hearing is to sift all this evidence and reconcile it, and this is time-consuming because we have such a small staff.

Senator Desruisseaux: How many have you on your staff?

Mr. Bennett: We have four officers to work on briefs and do analytical and statistical work.

Senator Macnaughton: Full time?

Mr. Bennett: Full time.

Senator Macnaughton: No research assistants?

Mr. Bennett: That includes research assistants. We get information from the department to the greatest extent possible, but we do have a great deal to do ourselves.

Senator Connolly: Well, the four who are at this table, with the exception of the chairman, are the people who do the work.

Mr. Bennett: In this room here you have the complete board staff, with the exception of one officer who is work-

ing in Montreal today and two stenographers who are keeping the shop.

Mr. St. Laurent: May I make a correction to that, Mr. Chairman? I, as a commissioner, work on a part-time basis. I do not do research. So at this table there are two full-time people plus the chairman working on cases.

The Chairman: What is a quorum for the board to sit?

Mr. Bennett: Two.

Honourable senators, in arriving at a recommendation we are guided by a key section, section 18 of the Textile and Clothing Board Act, where, by law, the board must concern itself with specific factors before making any report to the minister. These factors are:

Relevant manpower and regional considerations, or any program or service provided by a department or agency of the Government of Canada;

The provisions of the agency General Agreement on Tariffs and Trade and particularly the Arrangement Regarding International Trade in Textiles (I.T.A.);

The effect of any special measures of protection which we might recommend on various classes of consumers;

The principle that special measures of protection are not to be implemented for the purpose of encouraging the maintenance of lines of production that have no prospects of becoming competitive with foreign goods in the market in Canada (a very difficult factor to try and come to grips with).

The Chairman: That might be the very problem that goes to the heart of the question. That might be the reason why the local industry is in danger.

Mr. Bennett: It is certainly one of the factors we have to consider, and as I shall point out a little later in the statement, it does not allow the Textile and Clothing Board unilateral and arbitrary freedom to say amongst ourselves, "This is what we should do," because the guidelines for our decision-making are clearly spelled out in the law.

Senator Desruisseaux: Is that satisfactory to the board, or have you any observations to make about these interrogations?

Mr. Bennett: Well, this is the law and the policy of the government.

Senator Desruisseaux: That is not what I asked.

Mr. Bennett: I know it isn't.

Senator Desruisseaux: I would like to have your views on these rules and guidelines.

Mr. Bennett: I will be saying later, in answer to some of your questions, that I think the time has come for a review of the textile policy, and that includes all the mechanisms for the review policy itself, and the board is one of the major mechanisms of the on-going policy.

Senator Connolly: That statement is going to be very valuable, Mr. Bennett, and we will talk about it later, but I think what you have said is important not only to the committee but to the industry itself.

Senator Cook: You are not called upon to recommend a change in policy at any time, are you, or to make a report?

Mr. Bennett: We have not been called upon for any comments on those lines.

Senator Macnaughton: Mr. Bennett, would you mind repeating, for my benefit, guidelines 2, 5 and 6.

Mr. Bennett: Guideline No. 2, the provision of the General Agreement on Tariffs and Trade—GATT, in other words—and the special arrangement regarding international trade in textiles.

Senator Connolly: That is ITA.

Mr. Bennett: That is right. You can see, honourable senators, that the board in its deliberations rarely can reach a conclusion and a recommendation that is satisfactory to everyone's interest in the matter. It has been my experience since joining the board last October that detailed and persuasive arguments concerning the state of the Canadian textile or apparel industry are presented to the board. These difficulties being at present formidable competition from the so-called low-cost countries, including some state-controlled countries despite the best efforts of the Canadian industry at improving their technology and efficiency, and the word "viable" cannot be used, in my experience, as between Canadian and such offshore industries because there is little room for realistic comparison.

At the same time those Canadians who make their livelihood principally from importing, including some manufacturers and large retail outlets who are buying more and more garments from abroad, maintain they are operating in the consumer's interest by merchandising imported goods at prices lower than comparable merchandise produced in Canada. It is a fact that good quality merchandise can be purchased offshore and sold at retail considerably cheaper than Canadian goods. This low-cost merchandise is obviously to the benefit of the consumer and obviously to the benefit of the retail merchant.

Senator Connolly: You are speaking of price now?

Mr. Bennett: Yes. But to what degree to each is difficult to determine without closer study. Again the question of whether increasing importations are in the long run in the best interests of Canada is a problem ever before us.

We are always concerned about the length of time it takes to produce a report. We endeavor to be as accurate as possible before making recommendations, but every extension of time for double checks, more re-checks, more detailed examination of plans, more visitation to plants, more inquiry time, would extend the time frame a great deal with diminishing assistance to the industry who, in the meantime, may be experiencing greater stress while our report is in the making.

We have not been able to examine in any detail the retail marketing sector of the textile and apparel trade and its relationship to imports and our domestic industry. We know from briefs being presented to us that goods are being imported to a greater degree by the larger retailers who control the greater share of the consumer market.

Senator Connolly: I do not wish to interfere with what you are saying, Mr. Bennett, because I think it is important. However, will you be able to give us figures to support the last statement with respect to the volume of imports by retailers as against the volumes by processors and manufacturers?

Mr. Bennett: I do not believe I can give you any breakdown right now on that, senator. We found that most difficult. We do know from the people who have presented briefs to us, from retailers we have talked to, that their bookings, as they call them, their offshore bookings have increased and are increasing indeed for 1976.

Senator Connolly: Perhaps Mr. Armstrong would know if there have been any figures for this.

Mr. Armstrong: No, Senator Connolly, we have no such figures. We have never been able to obtain them, really.

Senator Connolly: I apologize for interfering with your train of thought, Mr. Bennett, but, in any event, if you had a bilateral agreement with a given country, the restriction on export from that country to Canada would, I take it, cover both imports by retailers and imports by processors.

Mr. Bennett: That is right. It would be all-embracing.

Senator Connolly: Perhaps someone in the industry or in the statistics department might have access to those figures. If we had them it would be of value. I am not suggesting making a project of it now, but if something comes up we would be interested in hearing about it.

Senator Desruisseaux: I hope you do not mind these interruptions, Mr. Bennett; they are common here and are made in the hope of getting some clarification. Have the consumers made representations to your board here and there?

Mr. Bennett: Generally when we have hearings. For instance, at recent hearings on outerwear and on the sweater industry, the Consumers Association and the Retail Council always give us briefs. Their briefs generally are encouraging the importation as against the higher cost of Canadian products, however.

Senator Connolly: Is it restricted to cost, dollars, to price, or do they also talk of quality when there are consumer representations?

Mr. Bennett: Generally speaking, Senator Connolly, quality is very good from the low-cost countries.

Senator Connolly: I see. We did not know that.

Mr. Bennett: They are very good. We have seen garments, apparel, which laid on the table before you side-by-side with Canadian garments were indistinguishable. You could not tell the difference between them. In fact, it takes some of the experts in the industry to point out to you that some of the garments are better in quality than the Canadian garments. Not much, but better.

Senator Connolly: But you do have poorer quality imported, too.

Mr. Bennett: Yes. You have the low lines of goods in both domestic and foreign production.

Senator Connolly: Thank you.

Mr. Bennett: Just finishing my remarks, Mr. Chairman, we are also required, on request, to investigate mass layoffs in the textile and clothing industries and to certify to the Minister of Labour the eligibility of the workers involved to apply for special benefits. In 1975 the board issued certifications for 18 layoffs involving about 3,000 employees.

Honourable senators, I have confined myself to a very brief description, without any details of the operations of this board, and to some of its attendant problems as a supplement to the fuller brief of my predecessor. My colleagues and our staff members will be pleased to answer your questions.

Senator Desruisseaux: Mr. Bennett, when you make your report to the minister, it takes an average of 3.4 months. How long does it take to get the response and action on whatever recommendations you make to the minister?

Mr. Bennett: Once we have presented our report to the minister, senator, our responsibility has in fact been discharged, as it were, by law. This becomes the minister's report.

Senator Desruisseaux: I realize that.

Mr. Bennett: Then he has to decide with his staff and advisers what to do with it. After two weeks or three months, or whatever time it takes, he does not come back to us and say, "We have decided to do thus and so." Generally speaking, the announcement is made at the time the report is tabled in the house that the government has decided to do whatever it has wanted to do. So we do not have any control, nor do we have any string, as it were, on the report after it leaves our hands.

Senator Desruisseaux: But there is a lapse of time, as an average.

Mr. Bennett: Yes, sir, there is a lapse of time and it depends on some reports. Some have involved rather lengthy lapses of time whereas others have involved two or three months.

Senator Desruisseaux: Are your recommendations usually followed? Is there a table on that?

Mr. Bennett: There is no table. We do not keep a score sheet, so to speak.

Senator Desruisseaux: But you would know from the records.

Mr. Bennett: That is right.

Mr. St. Laurent: May I say, Mr. Chairman, that most of the recommendations we have made have been accepted up to 90 per cent by the government.

Referring to your earlier question, Senator Desruisseaux, about the delays or the time it takes between the time at which the report is handed to the minister and the time at which he tables it, we do have statistics on that in every case.

Senator Desruisseaux: You can find that from your records? You actually know?

Mr. St. Laurent: Yes.

Senator Desruisseaux: You know what these delays are?

Mr. St. Laurent: Yes. We do have statistics on that.

Senator Macnaughton: Mr. Chairman, we have in front of us the comments on the operations of Canada's textile policy, 1970-75, from the same group of gentlemen. I do not see how we can handle this. It might save many questions if we could go through their statement.

The Chairman: It is pretty straightforward. I have been checking the statute as Mr. Bennett was reading his explanation. I think, following the submissions which we have heard, there would appear to be a gap or a breakdown somewhere between the time a recommendation or a report leaves the hands of the board and its getting to the minister. The breakdown is perhaps due to the fact that no action is taken by the minister, and there does not appear to be anything in the law as it presently exists whereby the board can go back over its recommendations.

What we are interested in knowing, I think, is, in what instances can the board itself make an investigation and take some form of action, other than just making the report to the minister or the Governor in Council?

Senator Connolly: There is none.

The Chairman: There is not any?

Senator Connolly: There is not any. At least, that is my understanding. I have not read the statute, and incidentally, I wonder if we could have a copy of it, some time.

The Chairman: The statute is very interesting. There is a section which deals with additions to the import control list, which would appear to be an important section; but from a quick reading of it it would appear that the action the board can take stops at the holding of an inquiry and the making of a recommendation.

Mr. St. Laurent: That is correct.

The Chairman: Yet part of their authority is given under section 26, amending section 5 of the Export and Import Permits Act, which reads:

"(2) Where at any time it appears to the satisfaction of the Governor in Council on a report of the Minister made pursuant to

(a) an inquiry made by the Textile and Clothing Board with respect to the importation of any textile and clothing goods within the meaning of the Textile and Clothing Board Act, or

(b) an inquiry made under section 16A of the Anti-dumping Act by the Anti-dumping Tribunal in respect of any goods other than textile and clothing goods within the meaning of the Textile and Clothing Board Act

that goods of any kind are being imported or are likely to be imported into Canada at such prices, in such quantities and under such conditions as to cause or threaten serious injury to Canadian producers of like or directly competitive goods, any goods of the same kind may, by order of the Governor in Council, be included on the Import Control List in order to limit the importation of such goods to the extent and for the period that, in the opinion of the Governor in Council, is necessary to prevent or remedy the injury."

There is therefore power in the Governor in Council to take action.

Part of the difficulty we seem to be running into here is, however, what kind of stimulation does it take to get the minister to take action? The access of the industry is to the board, and of course the road to the minister should be open; but there does not appear to be anything statutory about that. You will recall the provisions in the Customs Tariff Act, where it is provided that if a home industry is being endangered there is power to impose a surtax. That, however, has to appear to the satisfaction of the Governor

in Council on the report of the Minister of Finance. Can the Minister of Finance ask the board to conduct an inquiry, say, under this section of the Customs Tariff Act?

Mr. Bennett: Not under that act, senator.

The Chairman: Has it ever happened?

Mr. Bennett: It has never happened, no. I expect the Minister of Finance would be concerned in a taxing statute, and would probably request the Tariff Board to do any study that may be necessary if he was dealing with a tax or tariff situation.

Senator Connolly: There is authority in the Tariff Board Act to do that, is there not, Mr. Bennett?

Mr. Bennett: Yes.

The Chairman: Yes. Our concern, however, is to find some place where the job should be done, because the information we have been developing here—and it is hard to accept—is that the difficulty lies in getting through to where the action is, since nothing seems to happen in relation to a lot of these things.

Senator Hays: Mr. Chairman, you will remember that we had witnesses here the other day who were complaining about material that was coming out of Korea and into Hong Kong, for example, by way of trans-shipments, I believe they call them. We have everybody from the board here today, and I would like to put to them what Mr. Armstrong said, if I understood him correctly, which was that they just did not do anything. In the light of this, I would like to ask Mr. Bennett the following question: In the first place, do we have trans-shipments of the kind referred to in the accusations made by Mr. Armstrong?

Mr. Bennett: They are in your report, and I have read them.

Senator Hays: How do you answer these accusations? He says you just are not doing your job.

Mr. Bennett: He was not saying we were not doing our job.

Senator Hays: Well, somebody was not doing their job. It seems to me we should find out what this is all about.

The Chairman: The communications system needed revising.

Mr. Bennett: Are you talking purely of trans-shipments?

Senator Hays: This was one area. There were many areas, but this was one area where they were having trouble. These trans-shipments would just keep coming in, and the manufacturers would be hurt.

The Chairman: Another area was the import control list, and the over-shipments.

Senator Hays: Yes. The over-shipments. They said you people just did not do anything. They said you sat idly by and let these things happen, as a consequence of which these people were hurt.

Senator Connolly: He did not say that, but go ahead anyway.

Senator Hays: It was pretty blunt stuff, as I recall it.

Senator Desruisseaux: But it was not expressed in the way you are expressing it.

Senator Hays: We are all so nice here, but then they come here and say that it is the government that is at fault, and that the government never does anything about these things.

Mr. Bennett: You are speaking to the chairman of the board, and I do not have control of the Import Control List. This is something that is within the purview of the Minister of Industry, Trade and Commerce, and when the officials from that department come before you, you will be able to examine them very closely on that particular point.

With regard to the trans-shipment question, there is certainly a section of the Customs Act under which action can be taken, but it is not easy. It is not a case of somebody just suddenly saying, "Let us stop these shipments." There has to be a lot of evidence, and I believe, although I do not have the statute in front of me, that they even have to submit it to council to get approval before they can do this sort of thing.

Senator Connolly: By this time, of course, all the goods are in the country.

Mr. Bennett: They could, of course, be held under the customs law.

Senator Connolly: If they find out soon enough.

The Chairman: The goods would be here, anyway.

Senator Macnaughton: It seems to me that the charge was that if this happened in the States you would get action within a week. Here we have to have a hearing, and then report to the minister, and six months go by, and by that time who cares? You are either in business or out of it.

Senator Laird: We put these people right on the spot and asked them, "What do you want, the American system?" And they said, "Yes."

Senator Hays: This is the problem. This is what we are here to deal with, is it not, Mr. Chairman?

Senator Connolly: I think, Senator Hays, that the gentlemen of the Textile and Clothing Board do not enforce that part of the law. They have certain requirements to meet, and those requirements are contained in the act that established them. I think Mr. Bennett's point is that if problems arise in connection with trans-shipments, then it may be the Deputy Minister of National Revenue, or the Deputy Minister of Industry, Trade and Commerce who is responsible, but it is not this board. This is a board of inquiry.

Senator Cook: On these lines, Mr. Chairman, could I ask Mr. Bennett certain questions? If these questions are embarrassing to him, I will understand and he need not answer. Do I understand you to say that the time has come for a general review of textile policy?

Mr. Bennett: I believe so, Senator Cook, yes.

Senator Cook: Is that only your view, or the unanimous view of the board?

Mr. Bennett: I will let my colleague speak on that.

Mr. St. Laurent: Yes, that is the general view of the board. On that point, I can only refer you to the October 20 memorandum that we sent to you people.

Senator Cook: Assuming that a review takes place, would you feel that our government policy should be more

in line with the policy of the United Kingdom and the United States, and other European countries?

Mr. Bennett: That is a very broad question, senator.

The Chairman: It may be getting rather close to a question of policy.

Senator Cook: But that is what we want to know. However, that is why I say that if the questions were embarrassing, the witness need not answer them. Let us bear in mind, though, that they have made numerous inquiries and that they know an awful lot more about it than we do. They have said it is their unanimous opinion that it is time for a review of policy.

The Chairman: I am just wondering whether we can avoid asking Mr. Bennett to state policy. I prefer to put the question in this form: Would it be better if the law required that the moment a trans-shipment took place, or the moment there was an over-shipment, the first thing that would happen would be that by statute an embargo would be placed on any further goods coming from the countries in question? That would bring you in line with United States' policy.

Senator Cook: That is a very good way of dealing with that particular problem, but my question, Mr. Chairman, was a more general one. I prefaced it by saying that if it were embarrassing to the witness, or any of the witnesses, by all means let them not reply; but what I wanted to get at was their view, as knowledgeable people, of what our general policy should be. They say that the time has come to review our policy, and I wanted the benefit of their advice, if they could give it, as to what form the review should take.

The Chairman: Mr. Bennett does not have any problem about answering that question, so we will let him answer.

Mr. Bennett: I think, honourable senators, I will try to give an answer as possible. It is very difficult for me on such short notice to discuss policy, although I suspected you would be into this very quickly. The question you ask is a simple one, and I am going to try to answer, in a rather lengthy reply, by dealing with the present policy, which may then give you some enlightenment as to what the problems are. It is simple to ask whether we should change the policy or not, but a brief "yes" or "no" will not do justice to the question. One of the problems I find in studying this is the definition of the words "textile policy" for these words seem to have different meanings to different people. For instance, Ms. Pestieau, of the C.D. Howe Foundation, who appeared before you, did a very lengthy and well thought-out analysis of the present policy, and she came to the conclusion that it appeared to be a failure. She used the word "appeared" based on this fact, namely that our industry is not able to meet foreign competition on its home ground any better now than in 1970. The Canadian Textile Institute say that the textile policy is a sound policy, but its application has failed. Now, there is no doubt that there are some Canadians, particularly importers, who feel that the policy is not a bad one at all, and from their point of view it is working out rather well. The consumers' interests seem to feel that the present policy, which allows a considerable latitude in the importation of goods, is of benefit to the consumer. So, I suppose if this group were asked, their answer might be that it has not failed. The government officials who must balance the pros and cons of our import and export trade policies, who are responsible for the administration of our international

commitments and who have to defend our restraints before the international textile surveillance body might, I suppose, have a slightly different answer. So, what is the test by which we try to decide the validity of the present policy?

I prefer to look at it as enunciated and in the subsequent law which was passed. Mr. Pepin, in 1970, did say that the policy was intended to provide a sense of direction and a framework for the textile and clothing industry to plan with greater confidence; but just prior to having said that, in the same speech he rejected both the open-door policy, involving determination of low-cost restraints, and the policy of global and comprehensive restraints such as they have in the United States.

Senator Connolly: What was the first one he rejected?

Mr. Bennett: The idea of the open-door policy was the first, and then he rejected the global and comprehensive restraints because he said they had adverse implications for the consumer interest and to Canada's international obligations. The new policy, the one we have been dealing with since 1970, must therefore have been a compromise between these two opposing opinions. His hope for the framework mentioned so often in testimony before the Senate committee was based on an anticipation of a more liberal export market and the belief that the Canadian industry, with improved technology, could meet competition from low-cost countries. And here I think is one of the keys to the problem. That premise has turned out to be a very weak foundation.

The Chairman: Well, if the industry could meet the problem, then these representatives would not be here.

Mr. Bennett: Quite right, Mr. Chairman.

The Chairman: And certainly not with the story they tell us and which is supported by the statements and statistics we have been provided with. Therefore the guidelines they developed in Mr. Pepin's interpretation of policy seem to be basically at fault.

Senator Cook: I wonder if the witness would just repeat that part about the premise.

Mr. Bennett: The premise, senator, was that the framework that has been mentioned so often was based on an anticipation of more liberal export markets and the belief that Canadian industry, with improved technology, could meet the competition from low-cost countries. And here we found that that premise was a weak foundation.

Senator Cook: But does it all turn on technology?

Mr. Bennett: I don't think so.

Senator Hays: Cheaper labour and communism.

Senator Laird: The evidence before us is that the technology here is on a par with any technology in the world.

Mr. St. Laurent: Mr. Chairman, could I add some comments?

The Chairman: Yes.

Mr. St. Laurent: I want to refer to the memorandum of October 20 which was sent to the Senate. On page 3 the board said that in the light of experience over the past five years the board still considers that the policy represented a reasonable and workable compromise although disappoint-

ed in one aspect of its operations, and that aspect of its operations has to do with the delays we have met. On that we said on page 4 that the board agrees that the selective approach can work satisfactorily only if allegations of injury are investigated promptly and action taken promptly on a case-by-case basis.

The Chairman: Well, the idea of a day-by-day basis hits right on the head what I have said about violations and an embargo provided by statute so there is no exercise of discretion.

Mr. St. Laurent: Perhaps my pronunciation was wrong, but I said on a "case-by-case" basis.

The Chairman: Yes, but I interpret that exactly in the same manner as a case-by-case basis. Somebody would say, "This is an over-shipment, here is the Import Control List, so there is an embargo on any further movement of goods. In addition the principles of GATT should apply and there should be compensation in the next year, not increasing the quota but decreasing it."

Senator Hays: That is the guts of the whole thing right there. That is what they say is not working.

Senator Connolly: Could we ask the witnesses whether in the case of a violation as a result of a trans-shipment or an over-shipment it is possible to use the device of embargo, or a similar device, to stop the export to Canada quickly enough?

The Chairman: Well, the customs people could tell you about that.

Senator Connolly: Well, Mr. Chairman, these gentlemen would know about it as well.

Mr. Bennett: Well, if the customs people were aware of it, and the authority is in their law, it is a clear-cut case and I imagine they could stop it. But in my experience I never had a case like that before me when I was in National Revenue.

The Chairman: Under the existing Customs Act would you have the authority to apply an embargo?

Mr. Bennett: Only in the case of this trans-shipment.

The Chairman: In the case of a trans-shipment you would?

Mr. Bennett: Where they were trying to avoid...

Senator Hays: Well, trans-shipments are all wrong. They are violating the law. They ship it out of Japan to Hong Kong.

The Chairman: They were violating the law in trans-shipments, yes.

Senator Cook: Whether it is a trans-shipment or not, the Customs Act could be amended so that we could act on the findings of this board. The authority would be the findings of the board and, as the chairman has said, we could have an embargo or an injunction, or call it what you like.

Senator Connolly: I believe the chairman is thinking of something faster than that, though. It may take three months before the findings of the board are available.

Suppose, for the sake of argument, the customs department gets notice of a trans-shipment; that is clearly in contravention of the Canadian law. That no doubt would

come from some member of the industry in Canada, probably, more likely than from any other source. Is there machinery in the law to prevent the trans-shipment of the goods that are trans-shipped into Canada?

The Chairman: Mr. Bennett says that there is.

Mr. Bennett: Section 22 of the Customs Act.

The Chairman: We might have to rewrite it to make it stronger.

Senator Connolly: It is all very well to have the authority, Mr. Chairman, but can you police it? Can you do it? Can you do it in time? I think that the point the industry has in mind is the delays which take place from the time the information is discovered and is transmitted to Canada and is put before the deputy minister in authentic form so that he can take action now.

The Chairman: There is the simple word "forthwith".

Senator Connolly: That is what you want, but is it possible to do it? Do the Americans do it? Do the British do it successfully?

The Chairman: The Americans do it.

Mr. Bennett: The Americans do it; I know that.

Senator Connolly: We are relying on Mr. Bennett's experience in National Revenue.

Mr. Bennett: One of the troubles in quick, effective action in customs is getting the information. That is the first thing. Most of the time goods are landed and sometimes even cleared before people say, "Oh, something is wrong here." So long as the information arrives at customs and it is clearly a violation of a section of the Customs Act, then customs can act very quickly. They just hold the goods; they do not release them to the importer. Then they have 60 days in which they can do a lot of inquiring and investigation into the bona fides or otherwise of the case.

Senator Connolly: It is a straight question of effective policing.

Senator Hays: Maybe also the penalty has to be taken into consideration at this point. What is the penalty for a trans-shipment is so far as the importer is concerned?

The Chairman: Are the goods seized?

Mr. Bennett: It depends entirely on the circumstances. If the goods are just held at customs because of some routine violation, if you will, the exporter may abandon them to the Crown. They may be exported back to the country of origin, if they are not permissible in the country.

Senator Connolly: Or exported to some other country.

Mr. Bennett: If they were trying to smuggle them into Canada that would be different; they would be seized.

Senator Hays: If he has made a trans-shipment, he has already broken the law.

The Chairman: Well, you have seized the goods.

Senator Hays: But if he keeps on doing it, it must be because it is only a light penalty.

Mr. Bennett: I should point out, sir, that there is nothing illegal about a trans-shipment, except in the particular

case where he is trans-shipping goods in order to avoid a quota situation.

Senator Connolly: That is the point.

Mr. Bennett: To avoid a quota situation. Then he is liable under the Customs Act and, indeed, under the Import Control Act. It is also a contravention of the ITA, the International Textile Agreement. So there are three violations automatically, if they do that sort of thing.

Senator Hays: But the only penalty, though, is the taking of his goods.

Mr. Bennett: Yes, Senator Hays. That would have to be a decision of the minister as to what they did with the goods ultimately.

Senator Connolly: What kind of evidence does the deputy minister require of a trans-shipment, let us say, before he takes action to stop the entry of the goods into Canada?

The Chairman: Senator Connolly, that answers itself.

Senator Connolly: I don't think it answers itself.

The Chairman: You establish a trans-shipment. That is a violation.

Senator Connolly: I want to know what evidence it is of the fact of trans-shipment that moves the deputy minister. Is it somebody calling him on the telephone, a competitor of the importer, saying, "This fellow has trans-shipped and he is overshipping on a quota," or does he need an affidavit, or does he need a hearing?

The Chairman: Let us stick with trans-shipment, because that is a violation of the law.

Senator Connolly: That is right.

The Chairman: When the goods are presented at customs.

Mr. Bennett: I think Senator Connolly's point is, how does customs know what to do because goods presented at customs may have invoices from Hong Kong and the origin of the goods may be from some other country that has been trying to get around the law.

Senator Connolly: It will not be patent on the face of the document.

Mr. Bennett: No doubt information would have to be given to customs by people who would say, "Look, there's a game on here."

Senator Connolly: Well, how do you verify that? Suppose I call you up and I don't know what I am talking about and I say, "This is a trans-shipment." You are not going to act on that.

Mr. Bennett: Senator Connolly, when I was deputy minister I think I always acted when you called me.

Hon. Senators: Hear, hear!

Senator Macnaughton: Would you do it for the rest of us?

Senator Hays: Mr. Bennett, do the same people break the law all the time on trans-shipments?

Mr. Bennett: I do not know that, senator. I could not answer that question.

Senator Hays: There must be statistics somewhere to indicate that.

Mr. Bennett: I do not know.

Senator Hays: It seems to me, Mr. Chairman, that if they keep on making trans-shipments—and this is the problem which the textile people say they have every day, or often—the same people must be getting away with it. If they are, it seems to me that the penalty is not sufficient to deter them from doing that sort of thing. Surely, that is one area we can look at closely?

The Chairman: Let us mark it on our list.

Senator Hays: I am sure if we were going to hang them they would not do it again; they would not be around to do it.

Senator Connolly: That is a very important point, Mr. Chairman, but I think the companion point is whether or not in fact this business, this approach of trying to shut the door when an offence is about to be committed, is down the line a bit from the real problem. I do not want to infringe on the area of policy, but when we had Ms. Pestieau here she talked about Article 3 and Article 4 arrangements. As I understand it, the Article 3 arrangement is the one which has been adopted by Canada. I am referring to Article 3 under the ITA. That is the arrangement we are discussing this morning with the Textile and Clothing Board before us. That is all predicated on the fact that an offence has been committed or that the source of complaint has been established and that the board then hears the complaint and makes its report. But that is after the horse has been stolen and the door has been closed. The board will now close the door and say you cannot do that any more; but the damage has been done. Now, this I can only talk about in a general way.

The Chairman: But you cannot close the door before you know that some violation has occurred.

Senator Connolly: The board, then, finds that a violation has occurred and closes the door. From my hearing of the submissions made by industry representatives, what they want is an agency in Canada which can deal with Article 4 agreements, which are the bilateral agreements that are made under the ITA with different exporting countries shipping into Canada. The industry, through such an agency, could establish quotas . . .

The Chairman: Those are voluntary bilateral agreements.

Senator Connolly: That is right. It seems to me that what the industry is saying is that if it had some way of urging upon the government—not upon this board, but upon the government—a sense of urgency, such as we found, for example, in the speech made by the Chancellor in the British house about the actual negotiations between Great Britain and perhaps 10 or 12 textile exporting countries, both developed and underdeveloped, they could then take the necessary steps in order to be competitive. If there were such an agency, it could review the situation generally and specifically, with a view to establishing bilateral agreements, establishing quotas, that would provide the textile industry in Canada assurance as to what it had to meet in the way of competition. Such an agency does not

exist, except with the Department of Industry, Trade and Commerce. The only place the industry can go is to the officials or the Minister of Industry, Trade and Commerce.

What it is looking for is an agency whereby the urgency of the establishment of those agreements can be established in this country. Those trying to justify government policy could make representations to such an agency. In addition, industry representatives could make representations as to what quotas should be invoked and in relation to what countries.

If the powers of the board were enlarged, would that be a way of meeting the requirement that seems to pervade the Canadian industry in respect of these bilateral agreements?

The Chairman: We have had an answer to that. We have already been told that the procedures of the board do not move fast enough to deal with this situation.

Senator Connolly: But this is a completely new concept for this board, Mr. Chairman. The board is presently operating under Article 3 of the ITA. Is it within the purview of this board, if the legislation were changed, to provide a forum for the development of ITA agreements on a long-range basis that might provide some assurance, the possibility of planning, for the Canadian industry and still meet the general requirements of government policy...

The Chairman: Senator Connolly, the only way to deal with this effectively, as I see it, is either under the Export and Import Permits Act or under the Customs Act itself. Based on the evidence we have had, I cannot accept any other agency as being the medium for doing this. We would simply be building more delay into the system.

Senator Cook: The root trouble, Mr. Chairman, is the deliberate policy of the Canadian government to proceed under Article 3 rather than Article 4. That policy may or may not be right, but all of the other countries operate under Article 4. Until Canada operates under Article 4, we cannot impose quotas. That is where the trouble lies.

The Chairman: The government can establish an Import Control List, and that list could be settled by the government with or without the approval of the country or countries involved.

Senator Connolly: Certainly.

The Chairman: In those circumstances where there is a violation of the law, my inclination would be to leave it with the people who are administering that law to act directly. It would not be the first time that a customs officer from Ottawa flew to the United States, or to Hong Kong, or wherever, to conduct an investigation right on the spot.

Senator Connolly: That is not the point I have in mind, Mr. Chairman. The complaint, as I see it from the evidence provided by the industry, is that there is no body through which they can get at the government at a hearing that would result in a decision to conclude bilateral agreements with exporting countries on a long-term basis, to settle quotas on a long-term basis, and to provide some assurance for the Canadian industry that as a result of such hearings there would be action by the officials of the Department of Industry, Trade and Commerce to move in the direction of those areas in establishing agreements and to provide some assurance for the Canadian industry with respect to competition. I think that is what the industry is telling us.

The Chairman: I do not think that proposal would guarantee anything. We have been told that some of the developing countries will sign anything, but will not abide by what they sign.

Senator Connolly: That is why Senator Hays argument about policing what we do is so important. That is the other branch of it, I think.

Senator Cook: Might I ask one question on the brief, Mr. Chairman? At page 5, it states:

There is one aspect of the marketing of textiles which has unfortunate results, and which the Board suggests warrants further consideration and possible action by the departmental officials.

And it goes on:

We suggest that after suitable review by the department, talks be held with the large department and chain stores to see if some self-imposed restraint could be worked out that would limit the proportion of purchases of any item or groups of items that would be switched to offshore countries in any one buying season. This would give Canadian producers time to adjust their operations and possibly meet the competition before losing a major proportion of their volume.

Assuming for a moment that the hope of any self-imposed restraints is a pious one, do you have any suggestion as to any other type of restraint which might be invoked to bring about this desirable result?

The Chairman: Senator Cook, I do not think the set-up of the board lends itself to such a course. One would have to proceed by the statutory route...

Senator Cook: I agree, Mr. Chairman. The board, however, has raised this problem and has suggested that one solution would be self-imposed restraints. I am simply suggesting that the hope of self-imposed restraints is a pious hope, and asking if the board has any other solution—not what it could do, but whether it has any other solution to suggest other than that of self-imposed restraints.

The Chairman: I am sure that if Korea were to sign a voluntary bilateral agreement on the imposition of quotas, it would be over-shipping or trans-shipping immediately.

Senator Cook: I appreciate that, but this proposed solution deals with self-imposed restraints on the part of department stores, not on the exporting countries. It would be self-imposed restraints exercised by the buyers of the large chain stores and department stores. I suggest that such a hope is a pious one, and I am asking whether Mr. Bennett has any other suggestion as to any other form of restraint other than self-imposed.

Mr. Bennett: There are only two forms, I would suggest, senator: those that are self-imposed, and those that are imposed by government. The suggestion of my predecessor was to the effect that this was an area in which, by goodwill and co-operation, there might be more stability and more of a guarantee to the domestic producer of a continuing market, if certain of the large importers—the retailers, in this case—were to give some sort of commitment and a co-operative guarantee to the government that they would buy some of their goods here in Canada and only a certain percentage offshore. This is all voluntary, however.

Senator Connolly: And that is not under ITA.

The Chairman: Is there any form that an exporter to Canada has to sign that requires him to disclose the origin of the goods in question?

Mr. Bennett: Yes, sir; there is a customs import form.

The Chairman: So that on a trans-shipment they are violating the law.

Mr. Bennett: If there is a trans-shipment, yes, with the idea of getting around a quota.

The Chairman: If the goods come from Korea via Hong Kong, and they indicate the origin as being Hong Kong, they have violated the law.

Mr. Bennett: They have violated the law in any case, quota or no quota.

Senator Laird: Could I ask a supplementary to that? Does there exist—and I am asking you this now because of your experience in Revenue Canada—legislation and machinery that could be used for this purpose, comparable to what we all know is used in discovering an intention to smuggle, and the apprehension of the smuggled goods?

Mr. Bennett: The law is there, senator. The difficulty is to make sure that you can get the information in order to apply the law. The mechanism is not difficult to apply, but there are thousands of shipments coming across the Pacific, and the invoices which the customs officers see before them will indicate that there is a shipment from Hong Kong. He examines the invoice which will say, perhaps, "Shirts from Hong Kong," and he has no reason, not having been told of such a reason, to suspect that this is a wrong shipment, and so the goods are released. If this happened to be a shipment of something that, let us say, originated in South Korea, that had been deliberately sent to Hong Kong and invoiced out as Hong Kong goods, the reason for this being to overcome a quota which had been imposed, then section 22 of the act is there to stop it. The problem for customs officers is that somebody has to tip them off. There is no investigator running around following each shipment.

Senator Laird: But there is machinery, as you know only too well, in connection with smuggling, for the detection in advance of a scheme to smuggle, and for following it up with the appropriate seizure.

Mr. Bennett: That is rather a different thing, sir, from just normal commercial activity.

The Chairman: If there were a complaint of goods coming from a place that is known to have the habit of being used as a trans-shipper, what would you think of the suggestion that the first thing that has to be done would be to impound the goods and keep them impounded for a period of time, such period to depend on whether the goods were of a perishable nature or not? This would give you time to find out if there were in fact violations. If you adopt the method of waiting and investigating whether the complaint is genuine and bona fide, you lose the whole benefit of any law that you might devise.

Senator Laird: Except that in the case of smuggling, or goods suspected of being smuggled, that is, brought in illegally, they could be detained at the border. There is nothing to stop the officer from doing that, even if those

goods might have originally been imported under a duty-free entry.

Mr. Bennett: That is correct.

Senator Laird: That is what I am trying to say. You have machinery that is used in connection with smuggling, so why not get the same machinery into operation with regard to trans-shipments, et cetera?

Senator Connolly: It is the triggering that you are concerned with.

The Chairman: We have certainly got a great deal of benefit out of our cross-examination, shall I say, of Mr. Bennett and the other members of the board. Whether they realize it or not, they have contributed a great deal of information that will be of value to us. I find that we are now going back and repeating ourselves, however. I would like to point out that we do have another group here. I would like to deal with this group this morning, though it depends on how long they are going to take. It also depends on whether you are satisfied that you have searched out any information that may be in the minds of Mr. Bennett and his confrères.

Senator Connolly: Could I ask Mr. Bennett one more question, Mr. Chairman? Suppose, for the sake of argument, that the jurisdiction of the board were enlarged, and suppose it were empowered to hold hearings with respect to the establishment of bilateral agreements with different exporting countries with a view to establishing long-term quotas, do you think that that is a function that with new powers this board could perform?

Mr. Bennett: With respect, senator, no. The law as it stands now gives this board powers of inquiry and analysis with a view to making recommendations to government. The negotiation between countries is done by governments, when it comes to arranging for quotas or bilateral agreements, and with respect, sir, I think that should be left to the governments in question. This board has a large role to play, as you will see when you have an opportunity to read the act; but its role is somewhat limited by its complement. We do not have the arms and legs to do all the things which I think, really, the statute tells us we should be able to do.

Senator Connolly: Mind you, I think that if this new jurisdiction were given to you you would have more help and more people.

Mr. Bennett: As far as inquiries are concerned, the board's functions could be enlarged within the present act to do more things.

Senator Macnaughton: We perhaps should give you baseball bats.

Senator Connolly: But you could perhaps do the things I suggest if you had a larger staff.

Mr. Bennett: Not to do the negotiations, though.

Senator Connolly: I do not say that; but rather, to trigger the negotiations. I do not know why I cannot get this point across, but this is the point the industry is concerned about.

The Chairman: Senator, you have certainly been working hard at it.

Senator Connolly: And it think we should. I have no interest in this, and I know nothing, really, about the textile industry; but it seems to me that what the industry feels we should have, and what I feel we should look at, is the creation of a forum in which the industry could say, "We have a situation where we need a bilateral agreement with South Korea, with Taiwan, with Japan, with Poland, just as the British are negotiating actively at present." I consider that we should have a forum in Canada in which the industry and government could come and argue their respective cases, after which the board can say, "All right. We should have that agreement, or we should have those agreements with those countries." If this were done, I think the planning of the industry in Canada, on the basis of the evidence that we have had, could go along apace and be properly carried out.

Mr. Bennett: May I suggest that one of the first things that should be done is that a review of the current textile policy should be undertaken involving not only the government but also the industry. I think industry and government have to sit down together to decide exactly what the policy should be. I think the policy should be reviewed and spelled out so clearly that people in the industry, in all sectors, will understand what it is.

Senator Connolly: The point I have just outlined seems to be the main one, and I have outlined it now three or four times. However, we will keep hammering at it.

The Chairman: I do not think there is any difficulty about policy. I think the difficulty lies in the difference between the announced policy and the methods for carrying it out. However, we can come back to that later. Thank you very much, Mr. Bennett and gentlemen.

We now have the witnesses here representing the United Textile Workers of America. It is now about 12 minutes after 12. I think when we adjourn—and we have not settled that matter yet—we will resume at 2.30 p.m. I do not like to rush witnesses who are making presentations and, therefore, rather than put on the stand Mr. Mustard, who I believe was going to speak for the United Textile Workers of America, and Mr. Watson, who I believe was going to speak for the Textile Workers Union of America, and whoever else they may feel they want to call, I suggest we adjourn now. I do not wish to rush you because of the limited time left. There are only 15 minutes or so and I do not think it is fair, unless you want to give it a try and we can start hearing your submission at this time.

Mr. Mustard, would you have a view on that?

Mr. Vernon Mustard, Canadian Director, United Textile Workers of America: Mr. Chairman, I am quite prepared to take advantage of the 15 minutes. I do not think we should waste time, if time is a factor. I am prepared to go ahead and break and pick up again when we return after lunch.

The Chairman: No, that is not satisfactory. When we get at you, we want to stay at you until we are through. I mean that in a kindly sense. It gives continuity to the questioning. It is our intention to adjourn at 12.30 in any event, and it is now 12.15.

Mr. Mustard: It would attempt to do the best I could, in that time.

The Chairman: My suggestion would be that we resume at 2.30 here in this room, when the floor will be yours,

subject to questioning. By now you should be familiar with how we operate.

Mr. Mustard: Perhaps, then, it would be better if we waited until 2.30 and get at it at that time.

The Chairman: I think so. I am sorry for the delay but we have had a busy morning and I think that is the best we can do.

The committee will adjourn now to resume at 2.30 this afternoon in this room.

The committee adjourned until 2.30 p.m.

The committee resumed its sitting at 2.30 p.m.

The Chairman: Honourable senators, we have two groups appearing before the committee this afternoon. The first will be the United Textile Workers of America, represented by Mr. Mustard, and I would ask Mr. Mustard to introduce his associate.

Mr. Mustard: Thank you, Mr. Chairman.

On my right is Mr. Myron Myslowka, Regional Director, Ontario and Maritime Regions.

I want to express our appreciation of the interest and concern shown by the members of the Senate and this committee in the problems of the textile industry. I know that our members will be watchful of the end result of the many months and years of study by various committees, and others, to bring about a stabilization of the industry through a more positive and effective textile policy.

It is not our intention today to present a technical paper or argument on the matter under consideration. We are certain that industry people have, or will, provide all of the statistics pertinent to this issue. It is our intention, in the interest of as little repetition as possible, to deal with what we consider are the humane and moral responsibilities.

I personally started in the textile industry in 1940 at the age of 14 and have been identified with the industry, in one capacity or another, all of my adult life, first as a labourer, then as a union shop representative, followed by a full-time position with the union.

Our union represents, in terms of bargaining unit and non-bargaining unit people, in 65 mills across the country—40 in the province of Quebec, 22 in the province of Ontario, and three in the Maritimes—approximately 15,000 people.

What is the probable outcome of the failure by this government to adopt a more protective policy and/or conscientious protective administration within the existing agreements? We see a continuing erosion of the domestic share of the consumer market and a slow but certain strangulation of this important Canadian industry. With this erosion comes the elimination of jobs—not the bottom of the ladder, poverty level paying jobs that for so many of the early years were identified with the textile industry but, in good part, skilled and semi-skilled jobs paying \$4 and \$5 per hour.

Many of our members have been identified with the textile industry all of their lives. Generation after generation, in fact, within the same families have passed on the skills and knowledge that today represent the very back-

bone of the human input into the efficiency and productivity of our mills. The workers of this industry have had too many years of insecurity due to fluctuations in market conditions brought about by a multitude of factors of which they are largely unaware and which they do not understand. Fluctuations in recent years have been caused largely by changing international inventory levels, price slashing as a result of offshore over-production, secondary economic pressures, such as the Arab states petroleum pricing and threatened embargoes against such large-scale synthetic manufacturers as Japan, and others, and then the lifting or easing of such actions. Also, over the past decade there has been an ever-increasing buildup of new installations and expansion within the developing nations, thus adding to the volume of goods and the total number of trading partners.

All of these factors are very difficult to relay to the worker and, with any degree of success, to justify the loss of Canadian jobs to accommodate some Korean, Chinese, Taiwanese, or other distant Asiatic worker.

With curtailment, or the closing of mills, the effect is the same—loss of jobs and livelihood. This loss of jobs, and resultant dislocation, is costly and traumatic, both in terms of economics and human distress due to retraining costs, unemployment insurance payouts, and other social assistance, as well as the fragmenting of families and the impact of changing cultural environments.

We are also concerned about the effects on communities, particularly those where textiles is the principal manufacturing industry in the area. The indirect loss of other jobs and the depression of that community generally due to the loss of the textile operation, again particularly in the textile towns, is, to say the least, devastating. The disappearance of textiles as a manufacturing industry on the Canadian scene would have a tremendous impact on the social, economic and cultural life of Canada. There are some 85,000 to 90,000 persons employed in the primary industry, not considering the garment trade, auto industry, home furnishings, and a host of other related industries and services. This represents billions of dollars worth of goods and services within our already faltering economy.

The policies of this government have resulted in many very unpopular steps in the way of changes in legislation or policy administration practices to bring the costs of social benefits, such as hospital, unemployment insurance, medical, education and welfare, under control. The added burden of the many thousands of people involved in this industry could be catastrophic.

We have had more than our share of attempts to retrain and relocate people. Montreal Cottons, which was a mill we had under contract, suffered a loss in jobs in 1970 of 850. These were members of our union who have spent all of their lives in the industry and who largely, with the exception of very few, were unsuccessful in adjusting to the area of relocation. The means were simply not there to accommodate the problems encountered.

Senator Desruijsseaux: Did this relocation take place through the Department of Manpower and Immigration?

Mr. Mustard: I believe Manpower was involved. I was not personally involved in it myself. Mr. Payette, who is not present, was involved in it. I believe it was a joint program involving the Department of Manpower and Immigration, management and labour.

Senator Desruijsseaux: Was there a retraining program?

Mr. Mustard: Some of the people were retrained; some of them were picked up in other mills in the area, but very few.

Senator Desruijsseaux: How did the employees react to these relocation attempts?

Mr. Mustard: In most cases, they ended up returning to their home base.

Senator Connolly: You mean, the majority of those that were relocated returned to where they came from?

Mr. Mustard: Yes, that was our experience.

Senator Connolly: To what kind of employment, the same kind?

Mr. Mustard: In some cases, to none. It was simply the difficulties and the fragmentation of the family that militated against them and they ended up returning to their home base.

Senator Connolly: What are they doing now?

Mr. Mustard: To a large extent, some of them who were relocated have gone into other mills that subsequently ended up with the same problem; a good many of them are still unemployed.

Senator Connolly: They are no longer on unemployment insurance then?

Mr. Mustard: No, there are community and social services, or some other type of assistance, I presume.

Senator Desruijsseaux: Were these situations ever discussed with the government?

Mr. Mustard: Yes. There had been meetings with government officials on this type of problem. As a matter of fact, there was a government official involved, I believe, in addition to the one out of the local Manpower office.

Senator Desruijsseaux: With no success?

Mr. Mustard: Well, with such minimal success that it is negligible.

Senator Desruijsseaux: Thank you.

Senator Connolly: Are you telling us, Mr. Mustard, that there are people,—I do not know how many and I wish you would tell me—who have virtually been unemployed since 1970, who formerly worked in the textile industry and are not now employed?

Mr. Mustard: I would say there are some in that category, yes, a fairly good number. You have to bear in mind that a person at the age of 50 or 55—of which we had a fair number, a fairly heavy concentration of the old solid textile workers, particularly in these fields because of the duration of those operations and the nature of the operation—that basically very rarely finds other employment. In some cases, where they went into other mills, they may have been in these other mills for a while. I can give you some examples later on where they moved from mill A to mill B and four or five years later the same action took place in mill B and consequently they are back faced with the same problem.

Senator Connolly: How many are you talking about?

Mr. Mustard: How many would not be presently employed?

Senator Connolly: Yes, and for most of the six-year period?

Mr. Mustard: I have to admit, honourable senator, I would be hazarding a guess.

Senator Cook: Do they still continue as members of a union?

Mr. Mustard: No.

Senator Cook: How many members has your union lost?

Mr. Mustard: We have lost in the past, I would say, ten years over 3,000 members, and 2,000 members within the 70s.

Senator Cook: You have said there are over 3,000 people who are no longer full-time textile workers?

Mr. Mustard: That is right.

Senator Beaubien: Mr. Mustard, how many have you on your union now?

Mr. Mustard: Our active rolls right now are around 10,000, that is actual members, but you have to bear in mind that there are people in the probationary status, and there are people on turnover rolls. We have active about 10,000.

Senator Beaubien: You have gone from 13 to 10 since 1970?

Mr. Mustard: That is correct. It is a little earlier than 1970, senator. I said it was 3,000 in the last ten years and 2,000 in the 70s that we have lost.

Senator Connolly: How are these people living?

Senator Beaubien: That is what I would like to know.

Senator Connolly: Where do they get the means for survival?

Mr. Mustard: I would say they are getting their means, senator, the same place as the other 700,000 unemployed in this country are getting theirs, basically.

Senator Connolly: This has been going on five or six years?

Senator Beaubien: Six years.

Mr. Mustard: It has been going on for longer than that period, really. We have other mills that went down prior to that.

Senator Connolly: They are not on unemployment insurance, they are on relief. Can they live on relief?

Mr. Mustard: They are on relief or social assistance of some kind, and in some cases there was an arrangement within the textile agreement, or the government policy on textiles, where persons with X number of years service in the industry at age 54 could receive a pension based on, I believe, the prevailing unemployment rate until they reached a certain age entitlement for old age security or the Canada Pension, it they had any credits.

Senator Cook: Just to refresh our minds, when was the new textile policy enunciated by Mr. Pepin?

Mr. Mustard: In 1970.

Senator Cook: 1970; and since that has been in force you have lost 2,000, you say?

Mr. Mustard: 2,000 since 1970.

Senator Desruisseaux: What was the real attempt made to relocate these 2,000 people that you mentioned?

Mr. Mustard: When you say "what attempt," in areas where we had a joint program with industry, there were considerable meetings held in terms of looking at other plants within the same company, if such were the case, in an attempt to move them into areas where they could be utilized.

Senator Desruisseaux: Was that with government participation?

Mr. Mustard: That was with government participation, yes. There are other areas where we attempted independently, with the independent company where they did not have additional units, and it was a singular operation.

Senator Cook: In the case of your organization, the 2,000 would be about 15 per cent, would it not?

Mr. Mustard: Yes.

Senator Cook: You lost about 15 per cent of your members?

Mr. Mustard: That is correct.

Senator Desruisseaux: You have no figures as to who were actually relocated with success?

Mr. Mustard: No. I was speaking with Mr. Payette, who was directly involved in these committees himself and he gave me some figures, where in a plant of 300 only a dozen people ended up being permanently affected in some relocation of the kind that I have talked about.

Senator Desruisseaux: That is less than one-half of one per cent.

Mr. Mustard: That is correct. We are certain that our experience would be borne out by an in-depth study of the difficulties and stress, the cultural differences, and the fragmentation of families based on many varying ties. To elaborate just for a moment, either the main breadwinner in the family may be working in some other industry within the community and there may be a daughter or a wife who was working in the textile industry, or a son, who because of the family structure ignores the opportunity for relocation, perhaps, if it takes place out of the area. You have older people, who because of age do not feel they can make that kind of transition.

The Chairman: In other words, some people and members of their family, who were centrally located as a unit, had their jobs within the industry, and when that fell apart it was a decision for them as to whether we will keep the family together and get what work we can, or whether we will scatter all over looking for work." The concentration, I take it, in the first place, was to seek work within the scope of the industry itself.

Mr. Mustard: Our experience has been with textile workers, particularly where generations have been involved in the industry, that when given satisfactory circumstances or conditions for mobility, something in the way of a different industry, they will take it.

The Chairman: That is understandable.

Mr. Mustard: Basically it is very difficult making those kinds of changes. We found that in general it was too great, and the retraining and relocation ended up in a useless exercise, while leaving a trail of frustrated and disillusioned workers.

Senator Connolly: Would you say that about the young workers?

Mr. Mustard: To a lesser extent—a much lesser extent.

Senator Connolly: They are more adaptable?

Mr. Mustard: Yes.

Senator Desruisseaux: What is the proportion of these 2,000, for instance, that were, say, around 40 to 50?

Mr. Mustard: Well, again, senator . . .

Senator Desruisseaux: It is hard to say?

Mr. Mustard: It is difficult, but if I were to take industry averages, I would have to say that up until recent years—possibly 45, 50, 55 per cent—somewhere in there.

Another area we must consider is that of the consumer. One of the arguments of the anti-protectionists is that good stiff offshore competition is essential to consumer protection and fair pricing. One need only look back over the years prior to the heavy influx of offshore goods from the low-wage Asiatic countries to see there has always been healthy competition within the domestic industry. We are more concerned about the other side of the coin, what happens to the offshore price plan if we no longer have a domestic industry. This could expose the Canadian consumer to a much greater danger from offshore foreign profiteering. We now have government playing a much greater role in monitoring and regulating prices within our own system. We would have no control over offshore consumer textiles, no more than the government has been able to exercise control over Arab state oil prices to Canada while restricting domestic industry to certain guidelines. In the consumer area, I am not an economist and my academic background is very limited, but it seems to me that there are only so many dollars, there is only so much money, and the consumer happens to be the taxpayer. If we throw more into the already swelling rolls of unemployed and others receiving community and social assistance, or what-have-you in the way of minimum guaranteed incomes, somebody has got to pay for it, and whether you are paying at the retail counter out of one pocket or whether you are paying in tax dollars out of the other, to me it is six of one and half a dozen of the other. I think it is a fallacy that the consumer is protected. I think the over-riding consideration here is people. What happens to the people if you allow a basic, traditional, Canadian industry to go down the drain? What happens to that 100,000 or 200,000 and if you add those indirects, who knows where it ends? This is a human problem. It becomes a social problem. It is not an economic one.

Senator Desruisseaux: This is done in the name of liberalization of trade, which in turn is supposed to bring about a situation whereby we will sell more than we import and be favourable. But I am glad you are giving your views on those very points because I think they are essential. It is essential that this should happen because whatever we import, we do not get a part of the profit that the companies, or the people that make these goods, will get in Canada.

Mr. Mustard: Honourable senator, I am not sitting here, and regretfully I was not present during the industry's presentation, but I am absolutely certain that the industry's posture was no different than ours. We are not asking for the eradication of imports; we are not asking for a 100 per cent market for the domestic industry. What we are asking for is a fair and just share of the Canadian market, of the domestic market, relative to that which is prevalent in other industrialized partners.

Senator Cook: Does your union make representations to the government?

Mr. Mustard: We have not in this area, other than that jointly with the labour-management committee. We have been a long-standing member of the textile labour-management committee that has made many representations to the government.

Senator Desruisseaux: When was the last one made?

Mr. Mustard: February, 1976.

Senator Desruisseaux: And before that?

Mr. Mustard: I don't have those figures off the top of my head. I will have to go back and check.

Senator Cook: This is a joint union-company committee, is it?

Mr. Mustard: It is the textile labour-management committee that was formed about nine years ago with a view to developing a common program, to lobby and initiate what actions we could jointly to bring about some more effective administration within the existing agreement, or change in the policy of the government to give protection to the industry.

Senator Cook: How is that committee made up?

Mr. Mustard: It is made up of the various members of the industry through the Canadian Textile Institute. It was chaired and brought together by an independent moderator, a chairman, the Abbé Dion from Montreal, and the various unions representing the textile industry were also a part of that committee.

Senator Cook: With whom do you have contact on the government side?

Mr. Mustard: Well, there were many sources. We met directly with the prime minister and cabinet members. We met directly with the minister and members of the Department of Industry, Trade and Commerce; we met with the team responsible for negotiating the agreement; we met through various means, lobbying and others, with members of Parliament from the textile constituencies. There were many, many meetings, and the committee met regularly for years on almost a monthly or a bi-monthly basis.

Senator Cook: Did anything concrete come out of it?

The Chairman: It would not appear so!

Mr. Mustard: I think, honourable senator, we are here because we do not feel, up to this point, it has produced anything in terms of real, positive substance. I think the figures that I gave you related to our losses alone in the seventies is indicative of what I am saying.

The Chairman: If you had been sitting here, Mr. Mustard, during all the hearings we have conducted, one thing

you would have realized is that this committee understands the problem, and this committee has some fairly definite views on potential solutions to the problem, and what you have said emphasizes the importance of the problem.

Mr. Mustard: I am certain that our people will be happy to hear the sentiments of the committee, Mr. Chairman.

Senator Macnaughton: Mr. Chairman, could I ask one question?

The Chairman: Yes.

Senator Macnaughton: I hope it is not explosive. I have been told that wages in Canada in the textile industry are 5 per cent higher than in the United States. Is that true or not?

Mr. Mustard: I would think that that is a fairly close estimate; whether the percentage is exactly correct, I would think it is fairly close.

Senator Macnaughton: Do you have any comment on that?

Mr. Mustard: If you feel, senator, that this militates against any viability within the Canadian industry vis-à-vis the import problem, then I do not know how you expect us to respond to people's needs. I think figures are available, and I would think that if you were to take the industry as a whole the average is somewhere close to perhaps just short of \$3.40 or \$3.50 an hour. If you take organized sectors of the industry, it is probably closer to \$4, or slightly above.

The Chairman: I do not think the solution to the problem lies in reducing the wages.

Senator Macnaughton: No, no; that is not the point. I am just testing. It is our job to inquire, so I am asking for information.

Senator Desruisseaux: May I ask a question of Mr. Mustard about employment in the textiles industry? Is it right to say that the average worker has more layoffs, because of the situation which presently exists, than in other fields?

Mr. Mustard: I am absolutely certain of that. I do not think there is any doubt of it.

The Chairman: Do you have something more there?

Mr. Mustard: I could just sum up and complete this, if I may, Mr. Chairman.

I believe we must not forget another very significant aspect of this whole question. That is, without a domestic textile industry, what do we do in time of war? I was involved in this industry during the second world war, prior to going into active service during the latter years, and I know that the textile industry was just as adaptable to the emergency as was the steel industry, the rolling mills, the auto industry, the rubber and electrical industries, and so on.

There was a high priority given to textile jobs. As a matter of fact, exemptions were granted because of the importance of the textile industry, and there were even restrictions on mobility outside of the industry during the war, based on the priority given to textiles. I believe we

must retain an efficient, viable industry in this country as part of our national defence.

The textile industry is traditionally a Canadian industry, and I believe the 300,000 or more workers directly and indirectly related to this industry, along with their families, are a major and integral part of the Canadian economic and social fabric.

We do not believe that the quality of Canadian life, in the light of the already strained economy and the heavy taxation on Canadian incomes, can be supported if we provide only a negative response to the need for a sound, effective textile policy.

I know our members, and, I am certain, the many thousands involved in the industry, really want to know: does the government want a textile industry or does it not? It is as simple as that. We have been shunted from pillar to post.

Senator Desruisseaux: If I may just cite what has been said in the newspaper—I cannot remember where, but I have mentioned it before here—it is expected that textiles could be phased out, and they talked about relocation in a way that looked very easy to carry out. I suspect that this is the basis for the present situation. But your comments are important on that point, too.

Mr. Mustard: Well, it is always easy for the philosophers, writers and theorists to talk about phasing out. I do not know what they plan to do with the hundreds of thousands of people directly and indirectly involved with or affected by the industry, however. This is the problem.

What we are looking for, really, as a union, and what our people as workers in the industry are looking for, is a policy that will restore and preserve a fair and just portion of domestic consumption. We look at other countries, and our people, even with their limited understanding, know that our neighbour to the south, and certain other countries, enjoy 80, 85, 90 per cent of the domestic market. We are looking for something in the way of similar consideration for the industry in Canada.

The Chairman: So you and the workers, and the members of your union, all support what the industry itself is trying to do.

Mr. Mustard: We have been directly involved with the industry, because their lot is our lot. We have been on that committee working jointly with them; we have been giving regular input into the material that their representations have been comprised of here; and I would have to say that as a union, while we may have the adversary stance at the bargaining table on this issue, we concur wholeheartedly with the industry's position, and with the contents of the material presented to this Senate committee.

The Chairman: Well now, Mr. Mustard, having said that, you have really stated your case, have you not?

Mr. Mustard: I think so.

The Chairman: And we know all the other facts, or at least we hope we do, in connection with this matter, by now. Is there anything more that might be said to be new that you have to say? I am not trying to rush you, but I am trying to organize the time of this committee.

Mr. Mustard: Well, perhaps my associate here wants to add something. I have pretty well concluded what I had to say, Mr. Chairman, with my thanks.

Mr. Myron Myslowka, Regional Director, Ontario and Maritime Regions, Textile Workers Union of America: I have nothing to say, Mr. Chairman.

The Chairman: Well, I want to thank you very much for your contribution to today's meeting.

Senator Connolly: It has been very helpful.

The Chairman: Even this morning, when you were listening, you had some idea of our thinking.

Mr. Mustard: Yes.

Senator Connolly: This may be a very frivolous question, Mr. Chairman, but let us assume, for the sake of argument, that some remedy is provided that will make possible a more rational disposition of Canadian markets for the Canadian industry. When you confront management across the bargaining table, you will be able to take advantage of that, too.

Mr. Mustard: Let me say this, senator: I would be stating an untruth if I did not say that I will take advantage of anything I can get hold of.

The Chairman: That is part of your job.

Mr. Mustard: My responsibility is to represent the best interests of my members; but I am not going to exercise bad judgment on behalf of those people if I feel the end result of our actions could be the loss of a segment of that industry.

Senator Connolly: That is a very important proposition, because I think once you say that, then you have to say, "If the wages are 5 per cent higher than they are in the United States, we have to watch our competitive position." If there is improvement as a result of things that might start here—that might not perhaps happen here, but that might start here—I think you will have to be prudent, just as the industry itself will have to be prudent.

The Chairman: And, of course, you have to look at productivity all the time.

Mr. Mustard: I believe, Mr. Chairman and honourable senators, that the history and practice of this union apply very largely to the other unions involved in the situation too, although they, of course, can speak for themselves. I think there has been a tremendous degree of cooperation in the area of productivity and in industry programs to modernize plants.

Senator Connolly: How long has it been since there has been a strike in the industry?

Mr. Mustard: Not too long ago. Those things happen occasionally, whether we like it or not. The fact that a strike may occur does not mean that the union is necessarily spoiling for a fight.

Senator Connolly: Has it been a strike-ridden industry?

The Chairman: Senator Connolly, we have one issue here

Senator Connolly: I think this is germane, Mr. Chairman. It has a direct relationship to productivity.

The Chairman: I do not think the question of strikes or what is behind them is pertinent.

Senator Connolly: I am simply trying to find out if it is a strike-ridden industry.

Mr. Mustard: To answer the question, I will say that the total man-hours lost as a result of strikes in the textile industry is low in comparison to other industries. In spite of what I consider to be a tremendous job done by our union field workers there have been strikes, but the number of man-hours lost as a result of such strikes is low.

The Chairman: Thank you, Mr. Mustard. You have been most helpful.

The next submission is from the Textile Workers Union of America, represented by Mr. Watson, Canadian Director, and Mr. Seymour, Canadian Publicity and Education Director.

Do you have an opening statement, Mr. Watson?

Mr. George C. Watson, Canadian Director, Textile Workers Union of America: Thank you, Mr. Chairman. At the outset, I should like to say, on behalf of the Textile Workers Union of America, how pleased we are that the Standing Senate Committee on Banking, Trade and Commerce has shown such an interest in the problems affecting this industry.

We have submitted a brief, as you know, Mr. Chairman. It is not my intention to read that brief, but I do have a supplementary oral statement I should like to make, following which we will be pleased to answer any questions members of the committee might wish to ask.

I have been involved in the textile industry since 1926, working in a textile plant for 20 years before taking a full-time position with the union. My first encounter with low-cost imports came in 1950 when I was talking to a glove manufacturer in Stratford, Ontario, who indicated at that time that he was getting out of the glove manufacturing business because of the low-cost imports. He showed me a pair of hand-embroidered imported gloves, which were selling in the city of Stratford for less than the cost of the wool that he bought for the manufacture of his line. He had no basis on which to compete.

Eventually, the glove industry in Canada went out of business, and because it was a small part of the industry I suppose we felt that if that was the worst thing that happened to our textile industry generally, that would be all right. However, it seems that that was only the forerunner of things to come. During the 1950s, and again in the 1960, we suffered through many plant closings, with the resultant dislocation for the workers in the industry. It was a disastrous experience for many of the employees, due, in the main, to the inability of those individuals to find alternative employment. Many of them remained on the unemployment rolls for long periods.

It seems that plant closings come in cycles. We had a rash of closings in the 1950s and many, as I said, in the 1960s. In the 1970s, especially since August, 1974, we have experienced an even more serious situation, in my opinion. Those companies that went out of business in the 1950s operated some of the most inefficient plants. That was not the case in the 1960s. Some of the companies that went out of business during the 1960s were efficient. In the 1970 we are finding that some of the companies that are going out of business are those with brand new, high efficiency plants. That bothers us because if that continues, we do not know what the future is going to be for the industry as a whole.

The companies are telling us that they are not prepared to spend millions of dollars on new plants in this period of uncertainty.

With the advent of the Textile and Clothing Board in 1971, along with the announced new policy of the government, our hopes were raised. We were very optimistic for the future at that time. However, events in the ensuing period of about five years have not lived up to our expectations. In fact, it seems there has been no improvement whatsoever, especially during the period since August, 1974.

Mr. Mustard indicated that his union suffered a serious loss in 1970. I would say that since about 1971 approximately 5,000 members of the Textile Workers Union of America have lost their jobs.

Senator Cook: Out of a total membership of what?

Mr. Watson: About 18,000, 19,000.

Senator Cook: So, you lost 25 per cent of your members.

Mr. Watson: Yes. Mind you, some of this is by way of cutbacks, which we hope are going to come back, but they are coming back awfully slowly. Since 1974 that figure has risen to about 3,500.

There was one rather important omission from the companies' list of plant closures, and I would now ask my assistant to deal with that closing.

Mr. E. Seymour, Canadian Publicity and Education Director, Textile Workers Union of America: This ties in with what Brother Mustard said about the problems of relocation. The closing which was omitted was the Marysville cotton mill, or the old Cosmo Imperial mill, which had plants in Trenton, Hamilton, Ajax, Yarmouth and Marysville, New Brunswick. I became involved in the Marysville, New Brunswick situation, and at that time there was cooperation between our union, the Department of Manpower and Immigration, as well as management, to try to relocate the workers involved. We actually had jobs for those individuals in various areas of Ontario in plants which we had under contract. However, we were not able to get anybody to move out of the Marysville area at all. They were promised by the Department of Manpower and Immigration that the full cost of relocation would be absorbed by the government, with no expense to them. Still they were reluctant to move. In fact, none of them moved. Most of them were involved in the textile industry for most of their lives, and it was a one-industry town. In addition, most of them owned their own homes. The attitude they took was one of riding it out, a "wait and see" attitude. They still had a ray of hope that something would come up.

Senator Connolly: How many people were involved?

Mr. Seymour: The total number of people involved in the Marysville plant was about 350.

Senator Connolly: And that is employees only, exclusive of families.

Mr. Seymour: Employees, yes; union members. I was talking about relocating them in Ontario but there are alternative sources of employment in a textile plant, and I believe it was in Moncton, New Brunswick which wasn't too far from the Marysville area, and they were even reluctant to live there. They just would not relocate. Once again, I think a large part of the reason for that is that

most of them had their homes paid for, most of them had their families either in high school or away and they had been in that area for their entire lives and just could not visualize leaving it. It was home to them.

Senator Connolly: Did you have housing in the new location all laid on?

Mr. Seymour: No, but the possibility of finding alternative accommodation was there. We did not go that far because we did not get any response from our initial investigations to relocate.

Certainly the idea of having rental accommodation for one member of the family, who would go up and get the job and get settled, a boarding house or something along that line, we had that well under way. There was no problem there.

Senator Cook: Did you say it was a new plant?

Mr. Seymour: No, it was an old plant but it was a one-industry town. The reason I mention this, is it gives some idea of the problems we face when we shut down an industry, particularly when it is the only industry in a community, and you speak to those people and suggest to them that they move out of the area. The problems are enormous.

Senator Desruisseaux: Was that through Manpower?

Mr. Seymour: Yes, we worked through Manpower in that situation.

Senator Desruisseaux: With others also?

Mr. Seymour: Yes.

Senator Cook: If I was employed by the textile industry and I was laid off, I would not be too keen to move to another textile job unless I was pretty sure I was going to keep it.

Mr. Seymour: That is an overriding factor.

Senator Cook: I would like to be sure it is going to be a steady job.

Mr. Seymour: In fact, some of the plants which we were going to move them to have since shut down. That is an overriding factor as well.

I think the main concern of the people I was involved with, certainly in that one town, was they just did not want to move out of the community. You are talking about people who over 50 years of age, over 40 years of age for the most part.

Senator Buckwold: I can understand the fact that people do not want to move; that is quite understandable. I find it hard to accept that as part of the problem when I know that in western Canada there is a very serious shortage of employees in the garment industry. Has there been much of a move of people who have been laid off?

Mr. Watson: I will be reporting on that.

Senator Buckwold: As one who comes from western Canada, I am being continually approached about, "How do we get employees into the garment industry in the West?"

Mr. Watson: In a couple of minutes, I will be on that point, senator.

Senator Connolly: I would like to follow up this other point with Mr. Seymour for just one moment. There were 350 people affected by the mill that never re-opened.

Mr. Seymour: The mill re-opened temporarily under a company that came in from the United States called Whitaker Textiles. They got it going on a short-term basis. They then left. It was eventually taken over by the Government of New Brunswick. I do not know all of the details in that situation. Then, eventually, it closed down again.

Senator Connolly: What has happened to those people?

Mr. Seymour: Most of them, I would think, are still there.

Senator Connolly: What are they doing?

Mr. Seymour: Most of them are not doing anything.

Senator Connolly: They must be doing something. Do they farm, do they log, do they cut wood? How do they live?

Senator Beaubien: Would they take odd jobs and that sort of thing?

Mr. Seymour: They would take odd jobs. However, some of them are old enough that they would get assistance under the textile and clothing policy—the pension.

Senator Connolly: How much would that be?

Mr. Seymour: I think it is three-quarters of their wages.

Senator Buckwold: How many of these would be female?

Mr. Seymour: Most of the workers in the plant were female.

Senator Buckwold: Not that it minimizes the importance, but there were other breadwinners.

Mr. Seymour: In some cases the breadwinners were in the same plant.

Senator Connolly: Most of the 350 were women?

Mr. Seymour: Most. Some were single parents, as well, which would magnify the problem.

Senator Connolly: If they had husbands, those husbands presumably had other work, like farming maybe.

Mr. Seymour: That is right, but at the same time, honourable senator, you have to recognize that these people were employed in the industry for a long time, and by losing their jobs in the industry, and the family income has decreased considerably.

Senator Connolly: But it is not quite so serious, is it, if the man is the breadwinner and if the wife happens to be working and loses her job? It is not quite so serious as the reverse, is it?

Mr. Seymour: It is still serious.

Senator Connolly: I realize that but it is not quite so bad, is it?

Mr. Seymour: If I may give you just a little more insight into that particular plant, it may help you understand.

People drove as far as 60 miles to get to work, and 60 miles to return home at night. They did that on a daily basis. That gives you some idea of the problem in that particular area.

Senator Desruisseaux: With the price of gas, it is not very interesting.

Mr. Seymour: That is right, but these are also people who wanted to work. The whole idea of going on welfare or going on government assistance was something they just did not like.

Senator Connolly: I suppose there would be a real problem for a wife and a family to go on welfare if her husband was a farmer or a fisherman, or whatever else he might have been doing in that area.

Mr. Watson: I spoke this week to our Quebec director, who unfortunately couldn't be here. He was here last week when we were iced out. He gave me some fresh information about Bruck Mills. I understand from the record that you had some information on that.

He tells me that in the Cowansville plant, that is the large plant, there have been an additional 150 people laid off. Even more serious, in the Sherbrooke plant, the employment has been reduced down to 21 people. The normal complement is close to 200.

He is very fearful that the company will probably close because it is not a very efficient operation, when you are running a plant with 21 where there were normally employed a couple of hundred people.

Senator Connolly: When did this layoff happen?

Mr. Watson: In the last week or so.

Senator Connolly: Can you state specifically what caused it? Was it a flood of goods from abroad?

Mr. Watson: This mill was in the doubleknit industry and it is in the same industry as the lanoknit that closed down in Montreal. It is just that imports have flooded that market.

Senator Connolly: From where?

Mr. Watson: From everywhere abroad, quite a bit from developing countries.

Senator Connolly: Korea, Taiwan—is it the Pacific?

Mr. Watson: I do not have that.

Senator Connolly: You heard the discussion this morning, was this a sudden thing that happened?

Mr. Watson: The doubleknit has not been sudden. There have been a number of plants shut down. At one time the industry hoped that this would be a fresh source of new blood for this industry, and they expanded into this so that they could supply the Canadian market. Then they found out that they had to shut their plants down, practically brand new plants with new equipment. It hardly ran for any more than a few years.

Senator Macnaughton: The reason is the change in styles?

Mr. Watson: The reason is the imports. I do not know the share but I would imagine the share of this section of the market—I would rather not quote figures—would be down as low as 25 per cent.

Senator Connolly: Part of the trouble was that the Expos went and traded Ken Stillman. He had to have doubleknits or he couldn't play ball.

Senator Desruisseaux: Was this case brought before the board?

Mr. Watson: Yes, we had hearings before the board on doubleknit.

Senator Desruisseaux: What was resolved?

Mr. Watson: Nothing, except the result has been that the plants are shutting down.

Senator Desruisseaux: What have been their recommendations?

Mr. Watson: We had a fairly good hearing going before the board, but from then on we are at the mercy of the powers that be. The only thing we have found out is that these plants are shutting down.

Senator Connolly: Was the flooding coming from countries that had bilateral agreements?

Mr. Watson: We had very few articles which were restrained. I think we had about six. In the United States they restrain a great many different types of imports.

Senator Connolly: Through bilateral agreements?

Mr. Watson: Through some kind of voluntary restraint agreements.

The Chairman: That would be the quota agreements.

Mr. Watson: Yes, quotas.

The Chairman: Senator Connolly, I understand that in the United States the quotas are not necessarily by countries; they are quantitative quotas on certain products, and you then sort out the numbers in the quota.

Senator Cook: As you say, you sort out and then you allocate what is available to different people.

The Chairman: That is right. Maybe that is a better way of doing it than having quotas with countries.

Senator Connolly: It saves you the bother of negotiating the agreements.

The Chairman: That is right.

Senator Connolly: It may get you around the technical problem that might arise when doing it yourself.

The Chairman: Even the problem that we were talking about this morning. If you have a quantitative quota, once the offerings equal that, that closes the door for that year. It is not a question of violation of the law or anything else.

Senator Cook: In other words, you set the overall quota and that is all your negotiators have to play with. They can go along with that and no more.

Mr. Watson: For the benefit of this honourable senator from out West, we had an example of a plant in Meaford, Ontario, where part of the West Mills Carpet Company closed. They closed their blanket and their weaving division, not the carpet division. They make carpet yarn as well, and they kept the carpet yarn operation going. The company at about that time had a carpet plant in Calgary and they were looking for employees, so they offered

employment to these people and quite a number left to go to Calgary, and some others went to Trenton, where they had other plants; but, you know, there is none of them left. They all returned to their homes, and they even did so although the pay was pretty fair out in Calgary.

Senator Buckwold: Why would they return to their homes? It could not be because Calgary is not a beautiful city to live in!

Senator Connolly: You do not have to say that.

Mr. Watson: No, I think the ties that bind them to their local community were so strong. In the first place, I was surprised that they left. When they returned, it did not surprise me that much. Sure, Calgary is a beautiful city, but these are people who have been maybe working in the industry 25, 30, 40 or 50 years at old plants.

Senator Buckwold: Again I can understand that, but I find it hard to understand when younger people do not do this. We get into the important discussion of how do you keep a dying community—if I can use that expression in quotes—on its feet.

Senator Desruisseaux: It is dying because we want it to die.

Senator Buckwold: It is dying because there are not the employment opportunities. Knowing that there are jobs available in other parts of the country in those same industries—and that is not true just of the textile industry; it is right across the country.

The Chairman: You are dealing with two categories of people: you are dealing with the younger people, and it is difficult to understand why they are not ready to move to where there is work; and the older people, who become placid and settle in their ways, and I can understand their lack of desire to move.

Senator Buckwold: I can understand that Mr. Chairman, I really can, and yet I know the urgency of employers in the needle trades in Winnipeg or Edmonton. They are desperate; they are begging for Philippino and other foreign labour to come in, not because it is any cheaper but because they can get people to work.

Mr. Watson: Meaford itself it a very beautiful town; it is beside the lake. I have had an opportunity of going there a couple of times, and I do not blame them for trying to get back to Meaford. But, on the other hand, I know one person, a mechanic, and he left to go to Trenton, and he decided he would return. He did not get a job, he was out of work for a few months, but he was a relatively young person, about 35 or 40, and a skilled mechanic, and he had a job in Trenton.

Senator Buckwold: Surely mechanics can get jobs. I have a letter on my desk today from a plant in Eastern Canada that is asking me to help with the immigration process of someone they would like to bring in from England as a textile mechanic, because they are in such short supply.

Mr. Watson: Well, sir, we feel very strongly that some sort of restraints are absolutely necessary, especially with regard to the developing countries where labour costs are extremely low, making it impossible to compete. The restraints should be retained for a long period, longer than we have experienced in the past, in our submission, and that is in the brief; I am sure you have read it.

The Chairman: Yes.

Mr. Watson: In our brief we indicate that imports are taking in excess of 50 per cent at the present time. Most of the developed nations provide a much larger share of the market for their domestic product producers. For example, in the United States the textile industry enjoys between 85 and 90 per cent of the market. In our nation the Canadian textile manufacturers should have the option of supplying at least 75 per cent of the domestic market. We feel that is a modest goal. The 75 per cent could be achieved over a period of years, possibly reached by restraining importers to no more than the current level of imports and keeping the full rate of growth for the Canadian producer. We are again hoping that something substantial will be done. We feel that there is a real need for a strong, stable textile industry in Canada, and not just for the benefit of our members and the employees in that industry but for the benefit of Canada as a whole.

In conclusion, gentlemen, I would like to express my appreciation for the great deal of interest you have shown. I agree with the Chairman that the evidence of sympathy for our industry is very apparent, and we are very pleased at that. This is the first time that we have got evidence of that type of interest that looked genuine, really. We have been before the government many times, and before the Prime Minister and the cabinet, so we would just like to thank you very much. If there are any further questions we are available to you for as long as you wish.

Senator Desruisseaux: On page 5 of your brief you give your conclusions and you make your recommendations. Would you read it? It is quite short. Could you read in your recommendations please.

Mr. Watson: Numbers 1 and 2?

Senator Desruisseaux: No, where it begins "We urge—"

Mr. Watson: It reads:

We urge the Committee to recommend the adoption of a new policy for the regulation of textile and clothing imports, a policy which, over the short range, would halt the ruinous decline in the domestic industry. In addition this new policy should have a long range goal of allowing the industry to supply at least a 75% share of the domestic consumption.

Do you want me to continue?

Senator Desruisseaux: Yes please.

Mr. Watson: We continue:

The two basic requirements for a viable policy are:

(1) The negotiation of bilateral agreements with the major exporting countries, with comprehensive ceilings and restraint levels governing all categories in which potential market disruption is indicated; and

(2) determination by the Government to undertake effective and timely surveillance measures, and appropriate actions to implement the agreements and prevent violations.

Senator Desruisseaux: Thank you.

Mr. Watson: By the way, I am heartily in accord—and I have said this at many of our meetings—with the statement of the chairman here that we should have a system where we could put an embargo on, because other countries have done that to us, if they get what looks like a

serious injury. I think we have had enough evidence of this at times that we could have experienced that type of thing, to hold back injurious imports until we have the investigation, at least.

The Chairman: Thank you very much, Mr. Watson.

Mr. Watson: Thank you, Mr. Chairman.

Senator Connolly: Could I just ask one question Mr. Chairman? Mr. Mustard said earlier, and I think it is implicit in what you say, sir, that the problem, of course, originates for the most part from production from the underdeveloped countries and the developing countries. I think we in this country have to look at the problems that the Third World has created, and that development in the Third World has created. So, while I agree with the point of view of a man in the trade union movement, the first thing he looks to is the welfare of his workers. I still think that that is consistent at the same time with a policy in this country of helping the underdeveloped world. Would you say that a policy of doing the right thing by the Third World, the equatorial world, could still be achieved and realize the two objectives that you have in your brief?

Mr. Watson: Well, I think that in Canada, if we are held down to 75 per cent of the domestic sales in this country, there will still be 25 per cent left to help out the developing countries. If all the developed countries would sacrifice 25 per cent of their trade, then the developing countries would have a big assist.

Senator Connolly: You are referring to the other developed countries, and saying that they should do this?

Mr. Watson: I am saying that we should all do it. The U.S. should do it, for instance. If the U.S. would make a sacrifice of 25 per cent of their market the results would be very beneficial. Ours is a drop in the bucket compared to what their contribution would be.

The Chairman: Honorable senators, I should tell you that we will be sitting next Wednesday. I cannot tell you the agenda as yet. It may necessarily include some further study of the textile industry, because we have not as yet had any indication from the department as to whether they are going to appear. We are sending them a formal invitation—not a subpoena.

Senator Macnaughton: Not yet, anyway.

The Chairman: If they do not appear we will go ahead without them.

Senator Connolly: We should be hearing their side of the question. I hope they realize that.

Senator Desruisseaux: I think it is their responsibility, in this case, to appear, because they have been named as delaying the situation, and I think it is their obligation to appear before this committee.

The Chairman: Yes. Well, I am not going to assess responsibility, I am just going to invite them. If they do not come, that is fine. We can get along without them.

Senator Buckwold: I was going to ask if we had invited any of the importers. I am talking of importers who are in fact carrying on the importation of these lines. I think it would be interesting to hear their point of view.

The Chairman: Yes. I, and I am sure every other senator, have questions that have developed out of our hear-

ings, and it would be very helpful if they came. If they do not come, we will just have to proceed without them.

notified in due course as to what the business of the committee at that time will be.

We will adjourn until next Wednesday. You will be

The Committee adjourned.

Published under authority of the Senate by the Queen's Printer for Canada

Available from Information Canada, Ottawa, Canada



FIRST SESSION—THIRTIETH PARLIAMENT

1974-75-76

THE SENATE OF CANADA

PROCEEDINGS OF THE

STANDING SENATE COMMITTEE ON

BANKING, TRADE AND COMMERCE

The Honourable SALTER A. HAYDEN, *Chairman*

Issue No. 80

WEDNESDAY, MARCH 17, 1976

Fifth Proceedings on:

"Canadian Textile Problems"

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Barrow	Hays
Beaubien	Laird
Buckwold	Lang
Connolly	Macnaughton
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	Perrault
Everett	Smith
*Flynn	(Colchester)
Haig	Sullivan
Hayden	Walker-(18)

**Ex officio* members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, May 27, 1975:

Pursuant to the Order of the Day, the Senate resumed the debate on the inquiry of the Honourable Senator Desruisseaux calling the attention of the Senate to Canadian textile problems.

After debate,

The Honourable Senator Asselin, P.C., moved, seconded by the Honourable Senator Choquette, that the subject-matter of the inquiry be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday March 17, 1976
(104)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m.

SUBJECT: "*Canadian Textile Problems*"

Present: The Honourable Senators Hayden (*Chairman*), Barrow, Beaubien, Connolly (*Ottawa West*), Cook, Desruisseaux, Haig, Laird, Macnaughton, Molson and Smith. (11)

Present, not of the Committee: The Honourable Senators Lafond and Bourget. (2)

In Attendance: Messrs. C. A. Poissant and R. Freeborough, Consultants to the Committee.

The Committee proceeded to the consideration of the above subject-matter.

WITNESSES:

Canadian Textiles Institute:

Mr. J. I. Armstrong, President, Canadian Textiles Institute;

Mr. F. P. Brady, Vice President and General Counsel, Dominion Textile Limited;

Mr. F. S. Kenny, Director, Government Relations, DuPont of Canada Ltd.; and

Mr. E. W. Young, Executive Assistant to the General Manager, Wabasso Limited.

At 11:40 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, March 17, 1976.

The Standing Senate Committee on Banking, Trade and Commerce met this day at 9.30 a.m. to consider Canadian textile problems.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: This morning we have two witnesses whom I should mention in particular. We have Mr. Armstrong, whom honourable senators will recall from previous appearances. He is President of the Canadian Textiles Institute. We have also Mr. F. P. Brady, who is Vice-President and General Counsel, Dominion Textile Limited.

There has been much said from time to time during our hearings to the effect that we should have a law like the one they have in the United States which deals with quotas and things like that. One of the subjects to be dealt with by Mr. Armstrong—and Mr. Brady realizes that the moment he becomes a witness, he has exposure to any questions we may wish to ask—is: What is the American situation, and how do they deal with this problem? That is one bit of information that I know Senator Connolly will be very pleased to get, and the committee generally, as to how the Americans are able to maintain 85 per cent, 86 per cent of the domestic market, and why we do not seem to have developed any way of retaining more than perhaps 45 per cent of the domestic market.

I should point out that in the distribution of material that was made to honourable senators at the beginning, there was included a little yellow book entitled *Arrangement Regarding International Trade in Textiles*. This has been referred to from time to time. It is the agreement under which the developed countries operate. Senator Connolly has been addressing questions to this subject. He can read it in that book, which is in his file of material.

Senator Connolly: I would rather get it from you than read it; it is clearer that way.

The Chairman: We will develop it this morning. Mr. Armstrong, are you ready to go first?

Mr. J. I. Armstrong, President, Canadian Textiles Institute: Mr. Chairman, I should like to say, first of all, that Mr. Brady and I appreciate this opportunity of appearing before your committee. In re-reading the proceedings of the committee of the past few weeks, I have been impressed by the number of times that witnesses on behalf of the industry have referred to the policy being followed by the United States in connection with imports of textiles and clothing into the U.S. market, and the number of times they have urged upon you the necessity of Canada adopting a similar policy if our industry is to continue to be viable and if the all-important investment spark is to be rekindled.

Mr. Brady has referred in some detail to the fact that the United States normally follows the provisions of article 4 of the International Textiles Arrangement when negotiating with its low-cost suppliers, and he has compared the broad, forward-looking, comprehensive approach of the United States to the rather narrow, piecemeal, backward nature of the agreements negotiated by Canada under the provisions of the International Textiles Arrangement.

It seemed to me that it would perhaps be helpful to the committee, and productive, if we were now to refer in more detail to exactly what it is the United States has which we believe to be so important in the Canadian context. In that connection, I have with me copies of two current United States bilateral agreements, which I will be tabling with the committee. The first one is an agreement between the United States and the Republic of China—which is known in Canada, I think, as Taiwan. This agreement is dated December 31, 1975, and in it there is an exchange of notes between the Ambassador of the Republic of China and Henry Kissinger, Secretary of State of the United States. I will read the United States note, which is as follows:

I refer to the Arrangement Regarding International Trade in Textiles done at Geneva on December 20, 1973, hereinafter referred to as the Arrangement. I also refer to recent discussions between Representatives of our two Governments concerning exports of cotton, wool and man-made fiber textiles and textile products from the Republic of China to the United States. As a result of those discussions, I wish to propose the following agreement relating to trade in cotton, wool, and man-made fiber textiles and apparel products between the Republic of China and the United States, to replace and supersede, effective January 1, 1975, the existing Cotton Textile and Wool and Man-Made Fiber Textile Agreements of December 30, 1971, as amended.

Senator Desruisseaux: Mr. Armstrong, is this a special agreement that was entered into, or is it included in the general agreements that were made?

Mr. Armstrong: This agreement is one of about 20 that the United States has with 20 supplying countries, all of which are more or less similar. I will be tabling two such agreements as examples. There are others, but they are all basically the same.

Senator Desruisseaux: But they touch on other areas?

Senator Connolly: What do you mean by "touch on other areas"? Do you mean other products in addition to textiles?

Senator Desruisseaux: They would touch on other products, such as steel, and so on.

Mr. Armstrong: No, these agreements deal only with textiles and apparel products.

The first important thing I see in this agreement is that it is for a period of three years, and it is three years into the future following the negotiations. The agreement goes on to say:

1. The term of this Agreement shall be from January 1, 1975 through December 31, 1977. During such term, the Government of the Republic of China will limit annual exports of cotton, wool and man-made fiber textiles and textile products from the Republic of China to the United States to aggregate, group, and specific limits at the levels specified in the following paragraphs.

Then there is an overall aggregate beyond which exports will not grow. Within that aggregate there are group limits; and within the group limits there are specific limits.

The Chairman: There is an overall limit, I take it. How is that measured? Is it measured in pounds, in tons, or what?

Mr. Armstrong: In equivalent square yards, Mr. Chairman.

Senator Desruisseaux: Is the United States also signatory to the ITA?

Mr. Armstrong: Yes, senator. Categories not given specific limits are subject to consultation levels and to the aggregate of applicable group limits. In other words, while there are specific group and aggregate limits provided, for those products for which there are no specific limits provided there are trigger points and consultation levels agreed to in advance.

In the agreement with the Republic of China, which I will be tabling, as there is in all the agreements of the United States, there is an equity clause, which says, in effect, that any country that signs an agreement with the United States covering the export of textiles into the U.S. market will be in no worse position than a country that refuses to sign such an agreement. In other words, the United States undertakes, in this agreement, to protect the interests of the Republic of China, which has signed an agreement, by not permitting third countries that have not signed an agreement to ship unlimited quantities into the United States.

Senator Connolly: And that is in all of the agreements?

Mr. Armstrong: Yes, it is. The agreements that the United States has made with its supplying countries are normally administered within the United States by the U.S. Bureau of Customs. The Federal Register in the United States, I understand, is published daily in Washington and is sent to the Bureau of Customs with all of the numbers and the group, aggregate and specific limits spelled out in detail. When imports into the United States reach one of these limits, the flow of goods is automatically stopped. They are placed in a bonded warehouse and held until the next agreement period. They may, on occasion, be removed from the bonded warehouse under negotiation, but are always charged to the forthcoming agreement for a later period.

There are some cases—and they are few—where the administration of the agreement is the responsibility of the exporting countries. In those cases, the imports are monitored very closely, and if it appears that the administration in the foreign country is not adequate to the task of preventing overshipments, for example, then it is normally

taken over by the U.S. Bureau of Customs and dealt with in a very efficient manner.

Senator Laird: I take it we do not have those mechanics available to us, Mr. Armstrong.

Mr. Armstrong: We do not use them, certainly, to the same degree as they do in the United States.

The Chairman: As I understand it, Mr. Armstrong, Canada is a party to the International Trade In Textiles Arrangement and can, under that agreement, exercise the authorities and powers to negotiate voluntary bilateral agreements on this subject.

Mr. Armstrong: That is quite right, Mr. Chairman, and in fact we do in some cases. We negotiate agreements under the provisions, normally, or article 3 of that agreement. In a few moments Mr. Brady will be dealing in more detail with an analysis he has made of the trade between Taiwan and the United States and Taiwan and Canada, and between Korea and the United States and Korea and Canada. I think that when he has completed the explanation of his analysis to you you will find it to be quite clear.

I also want to table a copy of the United States and Republic of Korea Textile Agreement, dated June 26, 1975. I have not referred to it in detail...

Senator Connolly: I wonder if I might ask a couple of questions before Mr. Armstrong goes to the next agreement, Mr. Chairman.

You gave us some material a few weeks back relating to the fact that the United Kingdom was negotiating agreements restricting imports. The Chancellor of the Exchequer indicated the number of countries involved. Are those U.K. agreements being negotiated under article 4; and, if so, do you know whether they are similar to the Taiwan-United States agreement which you have just discussed?

Mr. Armstrong: I would prefer Mr. Brady to answer that question, if I may.

Mr. F. P. Brady, Vice-President and General Counsel, Dominion Textile Limited: It is my understanding that the agreements being negotiated by the U.K. are part of the overall EEC agreements that are being negotiated with Taiwan, Korea, and quite a number of other countries, all of which, I think, were mentioned the last time we appeared before the committee. They are article 4 type agreements, bilateral, comprehensive agreements, and the U.K. gets its coverage under the umbrella of the EEC coverage. It also gets an additional benefit in that the U.K., because of the already heavy penetration of imports, is not being already heavy penetration of imports, is not being asked to take the same quantity as are other member nations of the EEC.

Senator Connolly: The statement made by the Chancellor of the Exchequer, as I recall it, was to the effect that the United Kingdom authorities were negotiating the agreements. Perhaps my interpretation is wrong, but, in any event, that is not accurate. The negotiations are being carried out by the Community authorities on behalf of the U.K. and the other members of the Community.

Mr. Brady: That is right, sir, the article 4 type agreements. The United Kingdom has gone even further in cases where there is an immediate threat. In some cases, if my memory serves me right, for example with cotton yarn coming from Spain or Portugal, they have gone further and

taken immediate steps to put a damper on those types of imports, but they are within the overall umbrella of the EEC in article 4 type agreements.

Senator Connolly: I do not think I want to know about the specific problems of individual countries. I gather they are entitled to take whatever action they need to protect their own industries, and do.

Mr. Brady: Yes, sir.

Senator Connolly: At the expense of repetition, perhaps, I hope to clarify something. You have described this agreement in Taiwan as an article 4 agreement, which I think is a good description. In Miss Pestieau's book, which she submitted to us, on page 94, dealing with Canadian textile policy, she says:

The principal difference between the two articles . . .

That is, Articles 3 and 4 . . .

is that Article 3 requires a product-by-product consultative procedure . . . and a one-year duration subject to annual review.

The difference between the Taiwan agreement, which is an article 4 agreement, and the article 3 agreement, which Canada apparently goes for, is first of all that it is on a product-by-product basis, and secondly that it is only for a one-year duration?

Mr. Armstrong: That is exactly correct. There is one further difference. The article 4 agreements are based on a risk of a threat of forthcoming market disruption.

Senator Connolly: Has that got to be pointed out by the Textile and Clothing Board before the agreement is made, or can they do it on their own initiative—just go and make an agreement?

Mr. Armstrong: In Canada, under the provisions of the Textile and Clothing Board Act, action follows a finding by that board of injury or threat of injury.

Senator Connolly: I realize that. I just want to shorten the question. I take it they can go and negotiate an article 3 agreement for one year on specific products.

Mr. Armstrong: Yes, sir.

Senator Connolly: Without having heard from the Textile and Clothing Board, they can do it if they just apprehend that in the future there might be disruption or over-shipment, or excessive shipment, to put it that way?

Mr. Armstrong: Whether they can or cannot do so, they certainly do not in practice do so without a report of the Textile and Clothing Board.

Senator Laird: I seem to recall the evidence here indicated that the Canadian textile industry was of the opinion that they need a five-year period of certainty before they can move ahead. Am I correct in my memory?

Mrs. Armstrong: Yes, you are, sir. We believe that a five-year agreement would be necessary, because investment decisions are based on period such as that. Some of the American agreements are for five years. The two I have tabled happen to be for three years. Certainly three years into the future is a great deal better than we now have.

Senator Connolly: Taiwan is only two years, is it not—1975 to 1977?

Mr. Armstrong: It is January 1, 1975 to December 31, 1977.

Senator Laird: With regard to Taiwan, who does the monitoring? Is it Taiwan or the United States?

Mr. Armstrong: In the case of Taiwan, I understand it is the United States Bureau of Customs.

Mr. Chairman, I have tabled with you a copy of the United States agreement with South Korea. At this stage I think it would be helpful if Mr. Brady could review with you the analysis he has made of the trade between these various countries.

The Chairman: Before Mr. Brady starts, are there any questions honourable senators want to ask Mr. Armstrong at this time?

Senator Cook: I have a few questions, but I think I would rather wait until Mr. Brady finishes, because they might apply to both.

Mr. Brady: Mr. Armstrong has asked me to be very clear. It is rather hard for an Irishman to be clear on St. Patrick's Day! Maybe before noon hour I can be reasonably clear.

Senator Connolly: You are all right this morning.

Mr. Brady: We have been talking of concepts, and I think if I put forward a few practical facts it might be easier for us to get a grip of this. Mr. Armstrong has filed a copy of the United States agreement with Taiwan. I should like to file a copy of Canada's agreement with Taiwan. I have another document, which will compare our trade and which talks a little bit about the agreements. I also have a computer analysis of the textile trade between Canada and Taiwan.

I should like to add to a couple of points Mr. Armstrong has made about the American agreement. I think the point we were making in previous testimony was that it is a global and very comprehensive agreement. It has an aggregate amount, but a crucial point is that it also covers 126 categories of textile products; there are 126 individual categories of textile products covered under this agreement.

The Chairman: Under which agreement?

Mr. Brady: Under the United States agreement with Taiwan there are 126 categories of textile products covered.

The Chairman: This is the first document you gave us, which is headed "Taiwan." That is Taiwan and whom?

Mr. Brady: This is an analysis of trade between Canada and Taiwan, the textile imports, the number of imports under restraint. The item I was looking at was the last item on the list. The number of items under restraint under the United States-Taiwan agreement is 126.

There are two other clauses in the United States agreement that I would point to. On page 9 of the agreement there is a pre-notification of export levels clause. This is an extremely important clause. Under this agreement the Taiwan government undertakes to notify the Americans of the levels within the agreement they are going to ship within the next year, so in advance everybody knows what is coming. Under article 11 they agree to the spacing of imports. In other words, with a textile there are style trends and cycles, and if you took everything in, say sheets

and pillow cases, before the white sales in January, if everything was shipped in that month, you could just ruin the trade for the year, whereas under the American agreement they have this spacing out provision. These are two very important factors.

Senator Connolly: Do the people in Taiwan have a state trading agency? Is this done through one agency?

Mr. Brady: I think so, but I am not sure.

Mr. Armstrong: I do not think so.

The Chairman: Is there someone in your group who knows?

Mr. F. S. Kenny, Director, Government Relations, DuPont of Canada Ltd.: I think I might reply to that. Most of these arrangements are done individually. There are even some companies in the United States that own subsidiaries or have trading arrangements with specific companies in Taiwan, but there is no state trading company, as there is in the People's Republic of China, for example.

Senator Connolly: How do they control these shipments? Is it done on an export control basis?

Mr. Brady: There is an export authorization system.

Senator Connolly: I do not like to interrupt so much, but I should like to clarify this. The United States is a very big place and there are many ports of entry. How do the Americans control the imports? How do they know? The stuff might come in at San Francisco, at New York, at New Orleans.

Mr. Armstrong: As I understand it, as imports arrive at all the various ports in the United States, as they begin to approach the restraint level, action follows at that time. As you say, there are probably hundreds of customs ports in the United States, and I suppose there could be a little spill-over from time to time, but this I doubt. I would think that action is taken in the United States well in advance of the restraint level being reached.

Mr. Brady: I do not think there are any great problems in the breaching of these agreements. In the trade, serious problems with breaching do not seem to develop. Once the agreements are arrived at and levels are stipulated you do not get much feedback indicating that there are problems with the agreements being breached.

In 1975, 150 textile items were imported and they represented a value of \$68 million. So it is up \$11 million, or about 16 percent.

I do not know whether you have the computer print-out in front of you, but the total items under restraint relating to the 150 types of textile items that come in from Taiwan, in this case, amount to \$68 million. The total items under restraint are covered in nine statistical classes. They only amount to a value of \$4 million.

Therefore, the total number of textile imports under restraint, as a percentage of total imports, is only 6 percent. Of the total trade, there are only nine items representing \$4 million, or 6 per cent under restraint under our form of agreements, in this case, with Taiwan.

Senator Connolly: Would it be fair to say, Mr. Brady, that because of the existence of the agreement between the United States and Taiwan, Taiwan shipments do not

exceed their quota, so that the American market is taking only what was up to the limit set out in the agreement?

Mr. Brady: Yes. They have very definite limits. We have some items under restraint but a very small proportion.

Senator Connolly: \$4 million worth against \$68 million worth in 1975, which means, based on the difference between the \$4 million and the \$68 million, that the Taiwan shipper can ship as much as he really likes to Canada without anyone complaining.

Mr. Brady: That is right.

Senator Connolly: He is not violating any agreement.

Mr. Brady: He is not violating any agreement with respect to any of the items other than these nine categories, and there are 150. So, let's say in the other 141 categories, there are just no limits. There is no violation, there is no problem of breach of agreements or anything else, as long as they keep to the agreed limits, and generally speaking they do. There can be some problems of ten more yards coming in than should, but generally speaking, without breaching the agreements there is a very vast, wide open market available to them, as opposed to a much tighter, closed situation in the United States. The same pattern emerges from Korea.

The Chairman: Before you refer to Korea, looking at the Canadian agreement with Taiwan and the items that are dealt with there—that is, the limited export—I was wondering how you would compare the volume of Canadian and domestic production on those items, in relation to what is brought in from Taiwan.

Mr. Brady: In some cases I would know them offhand, but in some other cases I would not.

In the doubleknit fabric the restriction here is 397,000 pounds. There are restrictions with four other countries. The restrictions, in all, amount to about 12 million pounds.

I think a fairly accurate estimate of the market for doubleknits in Canada would be about 30 to 34 million pounds of doubleknit fabrics. So, there are restrictions with only four countries; everybody else is unrestricted.

The Chairman: You mean they can come in and pay duty?

Mr. Brady: Yes. I am talking in terms of quantitative restrictions, sir.

Senator Barrow: Mr. Brady, of the 50 items being imported, how many are made in Canada?

Mr. Brady: The vast majority, sir. I was just trying to look at this computer list last night to see some that were not made in Canada. I really could not put my finger on them.

Broad woven fabrics of silk, that is a very minor item, about 10,000 pounds came in. You are talking about things such as acrylic yarn, rayon yarn, nylon yarn, polyester yarn, polyester cotton blended yarn, flannels, drills, twills, sateens, rayon broad woven fabrics, nylon broad woven fabrics, doubleknit fabrics, knitted fabrics. There are all kinds of apparel, underwear, men's and boys' sleepwear, women's and girls' sleepwear, blouses, outdoor jackets, raincoats, skirts, shorts. I would say most of these things, sir, are made in Canada.

The same type of situation exists with Korea. I would like to go through that quickly too.

I have this sheet, Mr. Chairman, and a few copies of the Canadian agreement and a few copies of the U.S. and Korea agreement which I will hand to you. I also have a couple of copies of the textile trade for 1975.

The agreement between the United States and Korea is an agreement of the same nature as the one Mr. Armstrong mentioned with Taiwan. It is an article 4 agreement, valid for three years. It covers aggregate groups and specific limits. In this case, there are 137 categories of textile products covered in this agreement.

Again, it has the same type of pre-notification clauses and spacing clauses. I do not think I will elaborate any further on this. If there are any questions, I will be glad to answer them.

The Canadian agreement with Korea, in annex one, has restraints on three products and there is an addendum to it, a memorandum of understanding covering men's suits. It covers four categories. When those four categories are translated into statistical categories, it is 14 different items.

The picture here, regarding our trade with Korea, is that on a total of all items, Canada had a deficit of \$69 million, of which the textile deficit was \$56 million; or 80 per cent of that deficit was represented by textile trade.

In 1974, there was \$57 million of imports, and last year, 1975, 141 items came in at a value of \$70 million.

In this case, 14 of these items were under restraint and represented a value of \$15.9 million, or 22 per cent of the imports were under restraint of some type. This is one of the high ones. This shows the variation that exists. You will recall that in Taiwan only 6 per cent were under some form of restraint. Here there is 22 per cent under restraint. Again it is the same type of items.

Reviewing the computer printout, I would say that many of the types of items are types which are made in Canada, and when you get this you will see that, particularly in the garment area, the imports of garments in terms of numbers and in terms of categories are quite high.

The Chairman: Again, Mr. Brady, was the finding of the Textile and Clothing Board that domestic industry was being endangered?

Mr. Brady: Yes, sir. In the Canadian memorandum of understanding all these items have had board action, board reports.

The Chairman: Who initiated the board action?

Mr. Brady: In all these cases it was the industry which initiated the board action.

The Chairman: Did they seek the attention of the board on other items than these items which were actually listed?

Mr. Brady: Industry?

The Chairman: Yes.

Mr. Brady: Yes, the industry has been before the board 35 or 36 times in the last four years on various products. That is only part of the problem. If you look at the breakdown of trade, you will see that in this case there were 141 items. We are expected to prove damage and injury, and it

is a most precise thing in front of the board: you must make a damage and injury case. Of course, it would no be fair to say that there would be 141 cases, because there are certainly families of items. For example, one can speak of men's outerwear or women's outerwear, and in that way you can marry several of these things together. But even if you narrow the 141 items down to 20 groupings, that still involves quite a problem, because, as the board told you when it was before you the other day, it takes them an average 3.4 months to process one case, which would be approximately four cases a year, or, in other words, five years to deal with 20 cases. Naturally, the 20 cases would not necessarily be from one source, but might be from three or four different sources. The point is that to cover the gamut would take a five-year period, as opposed to the American system of going out and negotiating this comprehensive type of agreement for this longer period in the future.

Again, when these are negotiated, they are for one year and then they are reviewed. So with respect to each one of these items then, such as doubleknit, which is on here, there is a question of the timing involved, because first the board has to make a finding, then it takes a fair amount of time to get through the interdepartmental committees and then to get the ministerial recommendation, and many times it may be four to six months before an agreement is negotiated. By that time the board is reviewing, and it could even happen that the board would come out with a different finding on the review. So we are in a constant state of confusion.

The Chairman: What happens to the agreement which has been entered and the listing of these particular imports and the quantities that are settled, when the period of the agreement runs out? It is for a year, say, and it runs out. Is there an interregnum or a gap there before another agreement is made?

Mr. Brady: Yes, there can be a gap. Sometimes consultations go on between the government negotiators, but there certainly can be a gap.

The Chairman: Would you go so far as to say that in that gap period, Korea, which is the country we are talking about now, could present to Canada exports of items which are even on that list for the year in question after the year has run but before the board has completed its review and made any further order? Could they just ship them into Canada and pay duty?

Mr. Brady: In the legalistic sense, I think they could, sir. Normally, most countries would keep to the levels until there was a renegotiation.

Senator Molson: Mr. Brady, in comparing the American and Canadian systems, is there in the United States a body of knowledgeable people comparable to our board?

Mr. Brady: There is no body comparable to the Textile and Clothing Board, no. The negotiations are undertaken jointly by the State Department and the Department of Commerce, with quite an input from industry. An advisory committee of industry has input into the Department of Commerce, and, jointly with the State Department, they negotiate these.

Senator Molson: There has to be an ongoing body of knowledge, and that would be in the Department of Commerce, would it?

Mr. Brady: In the Department of Commerce and in the State Department. The essential knowledge of the textile trade would be in the Department of Commerce.

Senator Molson: So they completely skip the whole idea, principle and complication of our board.

Mr. Armstrong: Mr. Chairman, I believe that with the exception of Australia, which is now considering setting up a textile and clothing board, Canada is the only country in the world with such a body.

Senator Macnaughton: Mr. Chairman, the Americans would have an ongoing subcommittee on textiles.

Mr. Armstrong: Yes, they do, senator. If I may interject just for a moment, the other day I was talking to my counterpart in Washington from the American Textile Manufacturers Institute, and I asked him to review with me the degree of dialogue that went on between him and the members of the industry and the negotiators, for example, in the State Department or Department of Commerce, and he told me that the degree of consultation was very real. He said, for example, he would be meeting the following day at 9 a.m. in the State Department with representatives of the American industry in connection with ongoing negotiations with Brazil, which the Americans are currently conducting. He said, "We will be told frankly what it is that Brazil wants. We will discuss with our negotiators what the American position will be during these negotiations." He said, "All in all, I am satisfied that we have a real and fruitful dialogue."

Senator Molson: It is a joint effort.

Mr. Armstrong: It is a joint effort, yes. They both seem to be on the same team.

Mr. Brady: I would want to emphasize, Mr. Chairman, that we are not advocating the elimination of the Textile and Clothing Board. We are advocating that it be given a broader mandate so that it can operate under article 4 and thus look towards eliminating "real risks of market disruption," and I am quoting those words from the international agreement.

With that you could then go to the board and ask them to look at this sector, starting from polyester yarn, polyester fabrics and garments made therefrom, from a spectrum of countries, and ask them to look forward. They then could make a recommendation which could form the basis of an article 4 type agreement.

Senator Macnaughton: Quick action.

Senator Connolly: Let us be realistic about this. In the American establishment there is consultation between industry, on the one hand, and, on the other hand, the departments which negotiate the agreement with the exporting country. There are no hearings; there is consultation. There is input from the industry. Industry briefs the negotiating team, which then tries to make the agreement, which may not be precisely in the terms which industry proposes but which must be in conformity with government policy with respect to that country and to the particular product.

I am not questioning Mr. Brady's statement, because we have heard it here a good many times, but I think we want to be sure about it. I think it must be remembered that the

Textile and Clothing Board, which, after all, is an administrative board, is semi-judicial in the function which it performs. Suppose they do make an order that an article 4 agreement should be made with Taiwan, or South Korea, what are you going to do with the legislation that establishes the board? Are you going to say that if the board sees fit it may make an order that you should have an article 4 agreement between Canada and Taiwan? And then are you simply going to say that the minister will get a recommendation from the board or that he will get an order from the board? Then is the minister constrained by the board order to go and negotiate an agreement? Having said that—and I am sorry the question is so long—do you then eliminate the input of the industry at the time the negotiating team is getting ready to go and discuss the matter with Taiwan or South Korea?

Mr. Brady: I do not know if I can give answers in the order in which you have asked the questions, but no, I do not think so. I think in the amendment we are working on, incidentally, to the Textile and Clothing Board Act, and which we hope to put on the record shortly, you would give the board this amended jurisdiction, and I think that if the government were to accept this amendment and pass it, it would be an indication of a change in policy. The policy would then reflect a government view that article 4 type agreements were acceptable, a view which at the present time is at best cloudy. If this amendment went through, I think it would be an indication that this policy is acceptable. As things are now, the minister is not necessarily bound by the injury recommendation, but once the amendment were accepted it would indicate that this policy was acceptable, and the minister would probably follow the recommendation.

I would supplement that by saying, with regard to the procedure you have suggested, senator, in terms of which there would still be industry input at that point, that I think we would want to be reasonable about this. We do not want to say, "Here are 150 items. Just negotiate all this and then close the door," and so on. If we could really sit down at some point and have a frank discussion and say things like, "Well, with regard to this one, we really cannot meet it," and so on, we would be very pleased.

Senator Connolly: Would it be after the order was made that you would sit down?

Mr. Brady: Really, an awful lot of that would happen before the board. It is important afterwards in this sense, that conditions change pretty quickly, and I think if we could make some valid input in the form of giving immediate reaction to conditions as they change, we would find that very useful.

Senator Connolly: In effect, I suppose, although this is a crude way to put it, there is no confidence between the industry and the departments in reference to these matters on both sides. Miss Pestieau has said this. Now what you are saying, in effect, is, "Because there is no confidence there, we are going to superimpose another step on the steps that have to be taken to achieve an article for agreement in the United States, for example." That extra step is a hearing before the board recommending the negotiation of an article for agreement.

Mr. Brady: Well, I think that as a consequence of the way the whole policy has been developed so far, this step is in there now. The Textile and Clothing Board has been in place since 1970 or 1971, of course.

Senator Connolly: But the jurisdiction is not there, and this is another step in jurisdiction which is to be conferred on the board.

Mr. Brady: Yes. I think this could be the bridge to re-establishing the type of confidence we have to have in each other.

Senator Connolly: But would not one such order by the Textile and Clothing Board be enough to trigger article 4 agreements with the 37 countries, or however many there are?

Mr. Brady: Personally, I would hope so, sir.

Senator Connolly: It is a one-shot operation.

The Chairman: Senator, are you thinking of the introduction of a provision to the effect that when the board makes a finding of injury the statute should require the negotiation of an article for agreement?

Senator Connolly: Not precisely, Mr. Chairman. The question of a finding of injury by the board is one point of their jurisdiction.

The Chairman: I have taken that into account in my question.

Senator Connolly: That is right.

The Chairman: Let us suppose they have made such a finding. Should the next thing be a statutory requirement, based on that finding?

Senator Connolly: No. I do not think there is any relationship, as I understand the witness, between a finding of injury, which is a finding separate and apart, on a specific issue, let us say, with reference to shipments from South Korea, and perhaps an application to a board that has additional jurisdiction to deal with an article 4 agreement because of a certain situation that has arisen with regard not only to Taiwan, let us say, but also perhaps 15 other countries as well, so that it would be a different type of hearing, as I understand the witness. I may be wrong.

The Chairman: Senator Connolly, you are assuming something I did not say. Suppose an inquiry is initiated before the board by the industry, as a result of which the board finds injury to a domestic industry.

Senator Connolly: Say, from Taiwan?

The Chairman: Yes. Then let us stop there. At the present time that finding goes to the minister, and he may act on it, or he may not; but what I am suggesting is, should there not be, based on a finding of injury by the board, a statutory requirement in the Textile and Clothing Board Act, not that they make a recommendation but that they direct that an article for agreement be made?

Senator Connolly: Well, I would accept that. I think we should consider, Mr. Chairman, whether or not this board should, in circumstances like this, direct the minister to do a certain thing.

The Chairman: I doubt if they can do that.

Senator Connolly: I thought that was what you were suggesting.

The Chairman: No. I am talking about a statutory requirement, with regard to the authority of the board, not that they recommend but that they direct.

Senator Connolly: Direct the minister to negotiate an article for agreement?

The Chairman: Yes.

Senator Connolly: The minister, of course, is not going to do this personally; it is going to be done by the department, and you may be tying their hands if the direction is too specific, because I do not think that negotiations of this kind with a foreign power are all cut and dried. There has to be a good deal of give and take in the process of conducting the negotiations. Perhaps they might direct that the principle be followed that there should be an article for agreement, leaving it to the officials to negotiate that agreement, but in close consultation, as these gentlemen suggested, with the industry.

The Chairman: Senator Connolly, perhaps it is time for us to stop being nice and to start being realistic with regard to the position of Canada and the adverse effects of these situations on Canada. Perhaps our main consideration should no longer be one of maintaining an attitude of niceness and thinking about everybody else's feelings.

Senator Connolly: I think we are looking for a practical approach here.

Mr. Brady: I think a practical suggestion, Mr. Chairman, would be to this effect. One of our principal preoccupations has been with regard to what happens after the recommendations are made. We are now talking about something much broader, if we get our concept across.

One of the difficulties under the old jurisdiction was that once the recommendations left the board there were a lot of bureaucratic delays. I think the idea I am about to put forward comes from listening to the tax people you had before you last week, and it is to the effect that once the recommendations left the board for an article 4 type agreement, there would be a statutory limitation providing that if nobody brought any very serious objections to the recommendations within 30 days, let us say, then the recommendations should form the basis of an agreement. In this way you would have your recommendations from the board, for, let us say, an article 4 type agreement; there would then be a statutory open period of, say, 30 days, which would provide the opportunity for people to bring forward objections; and at the end of this 30 days, if nobody came along with any very serious objections to the recommendation, then it would become, as a requirement, the basis for negotiating a new agreement. I know, of course, that there could be other policy factors that might bear on the situation; we are realistic, of course. However, I think that would put some order into this situation.

The Chairman: If I understand you correctly, what you are saying is that you would provide machinery and authority for the proposition that if no action is taken, then, this is the action that the law says exists in those circumstances.

Mr. Brady: I think so, yes.

Senator Connolly: Give them a time limit.

Senator Macnaughton: In the United States, according to the evidence this morning, you have a semi-joint committee with industry and government and you get reasonably quick action. I notice on one of the papers here "Office of Special Import Policy" Isn't that the same general thing?

Mr. Brady: It is the same thing, but it is much more sectionalized here. We go to the board, and really that is where our input is; and after the board our input, generally speaking, stops. Then there is further interaction, and then it gets into the hands of official negotiators and we are estopped in the sense that we are told, "Well, there is a board finding on this, Mr. Brady," or "Mr. Armstrong" as the case may be. "Don't worry about it; we will put that into effect." Our input gets estopped at a prior time, but not totally. But, essentially, once there is a board finding, then we are pretty well out of the picture.

Senator Macnaughton: Rather like mailing a letter—once you put it in the post you just have to wait a few days.

The Chairman: Mr. Brady, what is the sanction under the American agreement?

Mr. Brady: Perhaps Mr. Armstrong has a little information on the sanctions.

Mr. Armstrong: As I understand it, Mr. Chairman, section 204 of the U.S. Agriculture Act of 1956, as amended, provides the U.S. government with the authority to negotiate textile quotas or export restraint arrangements with other countries. In 1962 legislation was enacted empowering the U.S. government to impose quotas unilaterally in cases where a country was not prepared to negotiate a restraint agreement, and this was designed to overcome the equity argument used by countries with whom the United States was able to negotiate an agreement. Then I am informed by my colleague in the United States that there is also the general constitutional authority of the President to conduct foreign policy, and that has been embodied in the law. I have been informed that on two or three occasions importers entered legal actions against the American government for damages resulting from the negotiation of trade agreements, and in each case I am informed that the importers lost their case.

In the mail to me at the moment are copies of these acts; they have not yet arrived, but when they do, I shall be happy to provide them to Mr. Jackson. But there is ample legislative authority in the U.S. for the actions which they are pursuing.

The Chairman: I think you and other witnesses who appeared before us talked about the authority to impose an embargo on exporters to the States where those exporters have violated the quota agreement. Where does that authority emanate from, do you know?

Mr. Armstrong: As I mentioned earlier, the United States Bureau of Customs has the right, when goods are under a restraint agreement and approach the agreed restraint level, to impound the goods in a bonded warehouse until such time as they are released, perhaps during the following quota period. I think that is the sense in which we have been using the term "embargo", but I think, where a restraint arrangement is being administered by the U.S. Bureau of Customs, there will be no possibility of an overshipment other than that agreed to by the parties, and in these agreements between the United States and the 20 supplying countries with whom agreements exist there are provisions for overshipments, carry-forwards and this type of arrangement, but they are strictly limited. There is no way, as I understand it, that goods beyond those arranged levels can enter the commerce of the United States. In that sense, there is an embargo.

Senator Connolly: The short answer to the chairman's question is that the agreements themselves provide the machinery for policing the agreements.

The Chairman: Why could not we provide authority along similar lines in the Customs Act?

Mr. Armstrong: During an earlier proceeding, Mr. Chairman, Senator Connolly raised certain questions in connection with section 22 of our Customs Act and section 5 of the Export and Import Permits Act. I would like to state at this time that we are making a further study of the legal aspects of those acts. I had hoped to be able to deal with it this morning in detail, but we are not prepared as yet, because we find that the further we look into those acts the more complex they are. However, we hope to have a statement to file with the committee in the near future dealing with the legal provisions in Canada to control imports.

Senator Desruisseaux: Mr. Chairman, I would like to clarify something. In the U.S. agreements made and signed do the people responsible for the agreement on the part of the U.S.A. have previous dealings with the industry on those agreements? Secondly, in the addendum of the Memorandum of Understanding, I see that the General Director of the Office of Special Import Policy has signed the agreement. Is there any relationship established with the industry previous to signing in each of these cases?

Mr. Armstrong: Yes, senator, there certainly is. We do have relationships with the Office of Special Import Policy, and in that case of the special agreement with Taiwan, to which you have referred, we had a meeting with the officers on special import policy at which they reported to us what had taken place during the negotiations with Korea, and what had resulted therefrom. It is my understanding that in the United States there is a much closer relationship and there is much greater depth in the dialogue between the State Department, the Commerce Department and the industry than currently exists in Canada.

Senator Molson: But did you not say previously that at these negotiations representatives of the industry are usually present?

Mr. Armstrong: That is correct.

Senator Molson: And in all cases you are informed afterwards as to how the negotiations went?

Mr. Armstrong: By and large, that is the situation, senator. I mentioned during earlier proceedings, Senator Molson, that there are no negotiations, as I understand it, that take place in any country in the world affecting the American textile and apparel industry which the industry representatives are not invited to attend in a consultative capacity.

Senator Macnaughton: But that is not true of Canada.

Mr. Armstrong: No.

Senator Molson: Then there is a very vast difference in approach.

Senator Connolly: Well, what would you say to this? Ms. Pestieau, whose evidence I did not hear, seems to have been the only outside witness we have heard, other than the members of the industry itself, and one of the points that she makes on page 76.9 of the proceedings of February

18 is this, that there are some sections of the industry which are not viable. She is talking about the Canadian textile industry. Now if that is the case, would you think that the negotiating teams and officials in the departments are reluctant to negotiate in certain instances because they feel they are negotiating on behalf of segments of Canadian industry that are not viable?

Mr. Armstrong: I do not believe, senator, that that feeling really exists in the minds of our negotiators. By and large, they are governed by, or they follow the recommendations of, the Textile and Clothing Board, to the extent that they are able. However, in connection with the viability question, Ms. Pestieau has said there may be sectors of the industry which are not viable in certain terms. I would point out that over the years many sectors of the Canadian textile industry have in fact disappeared; they were not viable. I am speaking of the knitted glove industry. During the early 1950s that industry consisted of 20 or 25 mills producing knitted gloves in Canada. It was completely wiped out by imports from Japan at that time. Later, just a matter of a few years ago, the baler and binder twine industry in Canada was largely wiped out by imports from North Africa. There again was an industry that in the minds of the Department of Finance at that time was not viable and was allowed to wither on the vine. We have said previously and I believe that what remains of the Canadian textile industry is a strong viable, vigorous industry.

Senator Connolly: Do you mean all parts of it?

Mr. Armstrong: All parts of it, because the parts are inter-related. I would like Mr. Brady to answer. However, if for example we decided that the spinning of yarn in Canada were not viable for some reason, Dominion Textile's finishing plant would wither and its weaving plant could wither. I would like Mr. Brady to speak to that question.

Senator Connolly: I am afraid I am taking you off on another tangent and the chairman may not like this, as he is looking at me angrily. Perhaps this discussion could take place in the form of a reply after we have heard the representatives of the department. That might be a better time to discuss this, because mine is an hypothetical question.

Mr. Brady: I would like to add a couple of short sentences to that. This viability comes into play very often. It can be a very subjective criterion. At the time the policy was put into place major studies were carried out by international consultants, three of them to my knowledge. The honourable Jean-Luc Pepin's statement at that time is still the basic statement with respect to the condition of the industry. If you like, I will read it to you, senator.

Senator Cook: We have heard all this before.

Mr. Brady: As far as viability is concerned, I could give you the best proof of that viability by inviting you gentlemen to see one or two of our plants.

Senator Cook: I have a few observations which in my view are very important, so I have jotted them down. I might read them, because we have heard a good deal of evidence and I would like to know if the impression I have formed is valid.

The Canadian textile industry has up-to-date efficient plants. It has excellent technology and an experienced,

well-paid labour force—all three compared with the best world standards.

Mr. Brady: That is right.

The Chairman: Did you get an answer to that, Senator Cook?

Mr. Armstrong: We agree completely with what you say.

Senator Cook: If I may complete my comments, the witnesses could answer at that time. The industry in all its ramifications—and I mean ramifications, because we have heard the evidence—is a most important industry for the Canadian economy.

Mr. Armstrong: We agree.

Senator Cook: The total Canadian domestic consumption would be equal to two per cent, three per cent or four per cent of the production of the world.

Mr. Armstrong: Yes.

Senator Cook: If the Canadian industry were phased out, it would cause great damage to the Canadian economy, but would make little difference when parcelled out among all other exporting countries, which would exploit the Canadian market.

Mr. Armstrong: Exactly.

Mr. Brady: Very much so.

Senator Cook: Fiddling around with the tariff is no cure against unfair competition from low-wage-paying, emerging countries and state-controlled economies.

Mr. Armstrong: Exactly.

Senator Cook: The answer is not in the tariff.

Mr. Armstrong: Right.

Senator Cook: The only solution is to make long-term allotments of, say, 70 per cent or 75 per cent of the domestic market amongst Canadian producers. This is the first and vital step, because if we do not do that and negotiate with emerging countries, giving away in the process 95 per cent of the market, it would render bilateral agreements useless, which would be no good. So this is the first and vital step. Then only the balance of the Canadian market may be bargained for and allotted among other exporting countries pursuant to bilateral agreements.

Would this policy, which seems to be similar to the policies followed by the EEC and the U.S.A., have a serious adverse effect on; one, the Canadian consumer; and, two, the Canadian importer?

Mr. Armstrong: First, honourable senator, may I compliment you on your perceptions of the problem. You have put into words exactly what we have been trying to say to the committee.

As to the two questions you have raised, as far as the importers are concerned there is nothing in what we have said that is really going to damage the interests of importers, in my opinion. If over a period of years we gradually reverse the trend in the market place and gradually start to recover our share of the market to the point, as you say, of perhaps 70 per cent to 75 per cent of the domestic market, during this period we will be taking the growth in the market, which we have not been doing for many years. During that period the importers will be able to import

just as many square yard equivalents of textile fabrics and products as they are now doing, and I do not see where they will be injured to the slightest degree.

As far as the consumers are concerned, I feel likewise; the benefits they achieve from very cheap suits will continue to a limited degree. Those are very short-term benefits, in my opinion. If this industry were to go out of existence, I think the consumers would in the long run pay much more for their clothing and textiles than they are now doing. I think this has been evident in the baler and binder twine case which I mentioned. The farmers are now paying more for baler and binder twine than they would if the Canadian industry were still in place.

Senator Connolly: Are they still using it?

Mr. Armstrong: Oh, yes, they are; Canada is the largest hay producer in the world. I am sorry that Senator Hays is not present this morning.

Senator Connolly: And he will be, also, when he hears my question. However, it is not used for wheat and the other grain crops?

Mr. Armstrong: No.

Senator Macnaughton: Where does the twine come from now?

Mr. Armstrong: How it comes largely from Mexico and North Africa. A man-made fibre binding twine is made in Canada by a subsidiary of Imperial Oil, which is a new development. However, as I understand it, it still holds only a very small share of the market.

Senator Connolly: Would you not think, Mr. Armstrong, that the list of observations offered by Senator Cook might be the basis of a national policy in respect of textiles?

Mr. Armstrong: Yes, I would agree completely with you.

Senator Connolly: Would you agree that it could be, or should be modified without—I use here the language that was used by one of the witnesses from the industry—having a “boy scout” attitude in that policy, to take into account also the importance of a positive approach on the part of the Canadian government doing what it can to develop industry in the underdeveloped countries?

Mr. Armstrong: I am sorry, senator; I have missed the question.

Senator Connolly: I am saying that we have a rather expensive foreign aid program running at present and it seems to me that no one objects to that. In my opinion, it is a positive thing. Should that not be taken into account? Should we not try to encourage the development of industry in underdeveloped countries, which in effect might have a somewhat adverse influence upon the Canadian textile industry?

Mr. Armstrong: Yes, we agree with the desirability of assisting the developing countries. We say we have done it, and we have done it far more than our share, both as an industry and as a country.

Senator Connolly: I would not agree with that. I do not think we have done far more than our share. We have done pretty well. One of your people said that we had a “boy scout” attitude.

Mr. Armstrong: Yes, we do.

Mr. Brady: In terms of the textile industry—I will limit it to the textile industry—we have accepted more textiles from underdeveloped countries on a per capita basis than most of the large countries. I think the figures are three and four times per capita of acceptance of textiles into Canada as opposed to the United States or the EEC. In those terms, I think we have at least done our share, if not more than our share.

Senator Connolly: Do we get any credit for it?

Mr. Brady: We do not seem to get the credit I think we deserve. If you look at some of the balance of trade figures, which I looked at this morning, from Korea and Taiwan, in one case 80 per cent of the deficit is in the textile trade. In Korea there is a trade deficit of \$69 million, \$56 million of which is in textiles. It would have to be said that we are doing our share in those circumstances.

Senator Connolly: But really without credit to Canada in those areas, would you agree?

Mr. Brady: There could be a more positive approach of publicizing the fact that we are really doing our share.

Senator Connolly: I don't know, perhaps you do it in some other way, if I understand your argument, but this is letting things go by default.

Senator Molson: Mr. Chairman, perhaps the policy of the Canadian government could be amended to put the textile industry in a better position. The suggestion is being made that some steps should be taken to this end. That is the whole purpose of this discussion. Are we still going to run into a built-in head wind because of the nature of our organization for dealing with this? In the course of the hearings, we hear so often about the procedures we go through, from the board to committees, to the minister, and so on. It all sounds as though this is a method of coping that is really out of date, is rather archaic, that it is a committee approach which under the best of circumstances is difficult and always takes an enormous amount of time. I am wondering if we could achieve an ideal policy for Canada—for the country, for the consumer, for the textile industry. Are we still going to be faced with methods that make its application extremely difficult...

The Chairman: And, really, archaic?

Senator Molson: Yes. Perhaps we could expand a little on the way we are coping with it. It sounds as though, for example, in the comparison with the Americans—I do not know anything about the EEC—that they more or less get down to it, that they consult and negotiate, and the matter very rapidly gets on the books, so to speak.

The Chairman: There are two points that are critical. One is at the point of where there is negotiation and voluntary bilateral agreement. The other is observance or enforcement. The way the Americans deal with it, as I understand it, is that they keep track of the volume coming in, and when it is approaching the control limits they then start watching very carefully and give double attention to it. It seems to me that under the Export and Import Permits Act, which we have in existence, there is authority under section 5 for the Governor in Council to establish a list of goods to be called an import control list:

... including therein any article the import of which he deems it necessary to control for any of the following purposes...

Senator Connolly: From what are you quoting, Mr. Chairman?

The Chairman: I am reading from the Export and Import Permits Act. We had that before us about four or five years ago. One of the purposes which they list is:

to implement any action taken under the Agricultural Stabilization Act, the Fisheries Prices Support Act, the Agricultural Products Cooperative Marketing Act, the Agricultural Products Board Act or the Canadian Dairy Commission Act...

In order to get a little more authority in there, they could add any authority that you give, or any restrictions that you put in, such as customs, and the textile board.

The other side of the coin is in section 14, which says:

No person shall import or attempt to import any goods included in an Import Control List except under the authority of and in accordance with an import permit issued under this Act.

So there is some kind of potential authority. If there is a larger list of import control items, and permits are required to accompany the goods that are on that list before they can be admitted, track can be kept of everything coming in.

Senator Cook: The machinery is here, but it seems to me that the very first thing is the question of policy. The government has to decide how much, if any, of the textile trade is going to be reserved for the domestic industry, such as they do in the United States. If they say it will be 70 per cent, 75 per cent or 60 per cent, then that is decided on, and it is only the balance which becomes the subject of bilateral agreements. That is policy. The government has to decide that as a matter of policy. But they have not decided that at the moment. They say it all has to be given away piecemeal.

The Chairman: They have done bits and pieces of it, to the extent that they have established an import control list; but those are bits and pieces.

Mr. Armstrong: Mr. Chairman, a few moments ago Senator Molson referred to the cumbersome and time-consuming procedures that we were involved with, and the various instrumentalities that are in place to implement the present Canadian textile policy. It seems to me that if we had a forward-looking policy based on article 4 of the International Textile Arrangement, as do the Americans, with agreements reached for periods of three to five years into the future, much of this cumbersomeness would disappear. We would not be involved constantly in appearing before the board. Perhaps for one country or for one group of products we would appear, but having made that appearance it would be finished for three to five years—and in advance, which is the keynote.

Senator Molson: That is the key to the whole thing.

The Chairman: But we would have to do something more. That does not necessarily provide all the authority needed to move quickly on violations.

Mr. Armstrong: That is true.

The Chairman: Therefore we have to find some place to deal with that.

Senator Laird: On that very point, Mr. Chairman, with great respect I believe Senator Molson has hit the nail

right on the head. Our procedure is archaic. I would like to put it bluntly to both you, Mr. Chairman, and the witnesses: Is it not simply a case of too much bureaucratic control?

Mr. Armstrong: In my view, that is an overstatement, Senator Laird, in the sense that the Textile and Clothing Board Act provides that the board shall review each of its findings periodically. The board has contrued that to mean once a year. So, in effect, we have one-year agreements, and any findings of the board are reviewed within the year.

As Mr. Brady pointed out earlier, in some cases we are reviewing a product within two or three months of learning, as an industry, the recommendations which had been made on that product nine months previously. I think it is unfair to blame the bureaucracy for this. This is the way the policy is written. It should be changed and could be very easily changed.

Senator Laird: All the way through the hearings, I myself have asked whether the machinery is there, and I referred to such items as have been referred to by the chairman, as well as the Customs Act. I have received answers to the effect that the machinery is in place but is not being used.

That is oversimplifying it somewhat, I admit, but accepting that the machinery is in place and is not being used to its maximum benefit, then who are we to blame but those charged with operating the machinery?

Mr. Armstrong: I myself have made the statement that the machinery is there, but there is a lack of a strong will to use that machinery in the way it can be used.

Senator Laird: Exactly.

Senator Macnaughton: We have gone further, Mr. Chairman. We have suggested a joint subcommittee of industry and government to enable quick input, quick action, subject to the approval of the minister. Is that not what you are after?

Mr. Armstrong: Yes, senator.

Senator Connolly: On the question of policing any forward-looking five-year or three-year agreement, it seems to me that there are two ways in which that could be accomplished, one being to follow the provisions contained in the U.S. type of agreement, and the other being by way of import and export control regulations. Such regulations can be brought into play, if required. They may be required very frequently, or they may never be required, if the terms of the agreement are satisfactory in dealing with overshipments.

Mr. Brady: Given the article 4, forward-looking type of agreement, with the type of provisions that are in the U.S. agreements, there may, at times, be the need for enforcement procedures, but I think such occasions would be minimal. Given such an agreement, I think we would get away from a lot of the delaying type of procedures, and so on. That remains, in my mind, the key to the situation.

You asked me at a previous hearing, Senator Connolly, what countries had restraint agreements...

Mr. Armstrong: If I may just interrupt for one moment, I should like to add one more comment to my answer to Senator Laird's question so that the record is quite correct. In connection with the adequacy or otherwise of our

present legislation, the present Textile and Clothing Board Act, it was said at an earlier meeting that a new model of our machinery would be desirable, and I agree it would be, and so said at the time.

So, whether or not the present legislation is sufficient, in our view it should be reviewed and updated. I apologize for that interruption, Mr. Brady.

Senator Desruisseaux: I should like to make an observation on that point. I agree with the point raised by Senator Cook, to the effect that there should be a new attitude in Canada respecting textile policy.

Mr. Brady: In answer to your previous question, Senator Connolly, there are specific export restraint agreements between Canada and Japan, Hong Kong, Taiwan, South Korea, China, Poland and Czechoslovakia.

Senator Connolly: These are what type of agreements?

Mr. Brady: Of the type I have shown you. These cover four or five different products, we understand.

Senator Connolly: And no more than that?

Mr. Brady: Some may cover six or seven products, but certainly not much more than that.

Senator Connolly: None would cover 165 products, say?

Mr. Armstrong: No, senator.

Senator Cook: These are one-year agreements?

Mr. Armstrong: That is right.

The Chairman: I would like to point out to the committee that there is an act of Parliament to establish the Textile and Clothing Board. That act was assented to in May of 1971, and is reproduced as an appendix to *The Canadian Textile Policy: A Sectoral Trade Adjustment Strategy?* by Caroline Pestieau, starting at page 101. Section 27 of that act, which you will find at page 111, provides for an amendment to section 22 of the Customs Act. If the committee is agreeable, I should like to read section 27. It states:

27. Section 22 of the *Customs Act* is amended by adding thereto, immediately after subsection (2) thereof, the following subsection:

"(2a) Notwithstanding subsection (1), where at any time it appears to the satisfaction of the Governor in Council on a report from the Minister that the goods, the export of which from any country is the subject of an arrangement or commitment between the Government of Canada and the government of that country, are being imported into Canada in a manner that circumvents such arrangement or commitment, the Governor in Council may, by regulation, prohibit or otherwise regulate the entry of goods to which the arrangement or commitment between Canada and that country relates."

This is something akin to the impounding doctrine that you spoke of earlier, and there is provision for this in the Customs Act. The additions to the Import Control List can be found at the top of page 110, where it states:

"(2) Where at any time it appears to the satisfaction of the Governor in Council on a report of the Minister made pursuant to

(a) an inquiry made by the Textile and Clothing Board with respect to the importation of any textile

and clothing goods within the meaning of the *Textile and Clothing Board Act*, or

b) an inquiry made under section 16A of the *Anti-dumping Act*...

that goods of any kind are being imported or are likely to be imported into Canada at such prices in such quantities and under such conditions as to cause or threaten serious injury to Canadian producers of like or directly competitive goods, any goods of the same kind may, by order of the Governor in Council, be included on the Import Control List in order to limit the importation of such goods to the extent and for the period that, in the opinion of the Governor in Council, is necessary to prevent or remedy the injury."

So, there would appear to be basic authority for providing machinery which would enable the authorities to check imports. If they are not on the Import Control List, they can be added to that list until they are dealt with.

Senator Molson: The latter one is very much in arrears, Mr. Chairman. There would be an enormous time lag involved in that case.

The Chairman: There could be, which is why I have been holding out for a statutory authority where the statute speaks in certain circumstances and then things must happen. No one can interfere with it.

Senator Cook: As I understand what the witnesses have said, the machinery is there and, with the correct policy, a great many of these things would disappear.

The Chairman: That is right.

Senator Connolly: With respect, Mr. Chairman, I think the machinery is there to deal with cases of injury. I do not think the machinery is yet there to deal with the forward-looking cases that article 4 agreements contemplate.

Mr. Armstrong: That is correct.

Mr. Brady: That is precisely the type of amendment to this act that we are submitting to you.

Senator Connolly: The chairman is right when he says that under article 4 agreements, not only could you have a method of ensuring that there is no re-shipment but you also have the basic material in these two sections of the legislation which allows you further authority to control that.

Mr. Brady: Yes. I gave you the countries. You understand that there are three products which may also be covered by confidential agreements with certain countries. There is one more, namely shirts. There is a global restraint with eleven countries on shirts. That is the extent of the agreements that we are aware of.

Senator Macnaughton: This is a lucky day for the Irish!

The Chairman: We interrupted your trend. I understand you have further developments to make.

Mr. Brady: There is just one more point, if I might develop it. At one of the hearings on shirting there was a reference to availability of fabrics. I should like to file with the committee this document, which is a Department of National Revenue memorandum, No. D-17-6, which is known as the customs drawback shirting fabrics regulations. I will not read it or go into detail at the present time. It provides that if shirting manufacturers buy 75 per cent

of their fabrics in Canada, the other 25 per cent can come in duty-free. Therefore, there is not only no restraint, but it is duty-free. This is a special arrangement in making available the types of fabrics that might not be made. There is a very special arrangement providing for the duty-free entry of shirting fabrics if 75 per cent of the fabrics are of Canadian manufacture. It even goes down to 50 per cent. If they buy up to 50 per cent in Canada they pay only 50 per cent of the normal duty. I just wanted that to go on record.

Senator Molson: Would all this material be dutiable?

Mr. Brady: Normally, yes.

Mr. Armstrong: With the exception of very high quality British Commonwealth cotton shirtings, which are free of duty under the British Preferential Tariff.

Senator Molson: They are high cost materials, are they not?

Mr. Armstrong: Yes, they are.

Senator Desruisseaux: I wondered about Mr. Brady's information concerning the 75 per cent being allowed duty-free. How can that be controlled? There is no real control.

Mr. Brady: Yes, there is. The shirting manufacturers report their purchases to the Department of National Revenue; they report all their Canadian purchases. They also report their offshore purchases, then a percentage is established and if they qualify they are given a remission of duty. They pay the duty initially, they pay it as they are coming in, but there is an audit of their purchase of Canadian fabrics and their purchases abroad, a percentage is established and they are given a remission of duty.

Senator Desruisseaux: How long would that take?

Mr. Brady: They can file twice annually, if they want to. That would probably be their practice; once a year or twice a year they would file a remission claim.

Senator Desruisseaux: I still cannot see how you can prevent these countries from sending more than 25 per cent, because there is a time lapse of some months.

Mr. Brady: It is audited on an annual basis. There have not been any problems with enforcement.

Senator Desruisseaux: I am tempted to ask this. There is a widely held view about imports and about how we should look at trade. We say that we must liberalize trade. With that in mind, that very much affects government policy on what should be allowed and what should not be allowed. I am still worried about government thinking there and its effect on textiles in the future. Do you have views on that?

Mr. Armstrong: In Ms. Pestieau's study, which has been filed with the committee, as I recall she says that Canada has what she calls a "free-trade option" in dealing with matters such as those we have been discussing. I suggest to you that that phrase was used rather loosely by Ms. Pestieau. It is a phrase that reminds me once again of cosmetics rather than reality. I doubt that it is really an option Canada has. I agree fully with what Senator Molgat said in the Senate on March 4, that complete and absolute unilateral free trade is obviously impossible, and that is not what anybody is talking about. After saying:

... there is no future for Canada in the production of footwear, shirts and the standard elements ...

whatever they might be—he went on to say:

We must move ourselves into the new technology ... We can move into other types of production where the skills, knowledge and training which our people have can be used effectively.

I wonder what these other types of production are. I would like someone to illustrate to me where these moves can be made.

Certainly, as we point out on page 6 of our submission, the new technology in the textile industry is very impressive indeed. It has impressed me every time I have gone to see it, and I urge those of you who can to accept Mr. Brady's invitation to visit one of his plants, perhaps in Long Sault or in Beauharnois.

In any event, it appears that the Economic Council of Canada has invited us to uproot our manufacturing industries as they now exist and move to the distant green pastures of free trade. These are pastures which they assure us are very green indeed. In this connection, I would like to focus on four basic questions. First, is the far pasture of freer trade really as green as the Economic Council says it is? Secondly, is getting there as easy as the Council suggests? Thirdly, is our present manufacturing pasture really that bad? Fourthly, how green could our existing pasture become if it were better cultivated?

In connection with the first question, whether the free trade pasture is as green as the Council says it is, I would just ask them to tell me what happens if we have free trade and the world reverts to protectionism as soon as we manufacturers adjust to free trade in Canada. What value does the Council assign to this risk in calculating the risks of free trade? Is getting there as easy as the Council suggests it is?

Transition to the free trade environment proposed by the Council would entail complex and serious problems for our industry. You have heard from the representatives of the labour unions that labour in this industry, and indeed in many other manufacturing industries, is relatively immobile.

Dealing with its limited Canadian-U.S. free trade option, the Council suggests that certain textile firms would be helped, by their lower wages, to enter the U.S. market. This point is obviously based on obsolete data. Canadian textile wages are now significantly higher than those in the United States.

A second complication of this transition to these green pastures arises in the field of textile trade policy. The U.S.—which, as you well know imports only twice as much in absolute terms as Canada does in textiles and clothing—maintains these 20 textile trade agreements with other countries. If we had a free trade area with the United States, it seems unlikely that that country would be prepared to accept the heavy inflow of third country imports through Canada, coming in directly around the restraint system that they have built up over the years.

The third point I mentioned was: Is our manufacturing pasture really as bad as the Council points out? In a number of instances the Council overstates the protection that is now in place in Canada. A rather blatant example of this is where they relate quota restrictions as tariff equivalents. The table used by the Council, in its report "Looking Outward", tells us that the total protection on synthetic textiles in 1970 was equivalent to a tariff of 31.1 per cent, of which 11.38 per cent was the estimated effect of the quota

restrictions then in place on synthetic textiles. That figure is absurd. No one acquainted with the realities of textile restraints would carry such estimates to two decimal places of 1 per cent. More important still, the restraints in place in 1970 did not, by any stretch of the informed imagination, add 11.38 per cent to the landed cost of those textiles.

We are left with this question: To what extent have exaggerated production figures inflated the Council's calculation of the benefits of free trade?

In Canada we have never had the luxury of large-scale specialized production in the fibre fabric and clothing industries. So, what else is new? We have, over the years in Canada, developed a lot of skills in overcoming this lack in defining the obvious advantages of mass production. These are valuable skills, which in my opinion we should not drop lightly on the altar of an academic free trade cosmetic approach.

I reject the premise that the sole solution for our need for higher productivity is to join large trade blocs and play the mass production game. Much of the new technology in our industry, which is being developed and which is referred to in our submission, is designed for a country this size. We do not need, in many cases, the optimum production that the Council seems to think we do.

In summary—and I am speaking only in the context of petro chemicals, fibres, textiles and clothing—in our view the Council overstates the benefits of freer trade; it understates the costs of transition of getting there; it has not recognized the worth of manufacturing industries in Canada and it has not adequately considered the alternative solutions to what they propose.

There are alternatives to what the Council is talking about. It calls for strong investment in manufacturing, in my opinion. To justify and attract this investment, we must first get this ambivalence of trade policy behind us. The textile manufacturer is in the position, I suggest, of a musician playing an extremely difficult piece of music while the people behind him debate loudly whether he is to be garroted or shot, and how soon.

In our brief, we pointed out that in 1974 the imbalance of trade in textiles and clothing amounted to \$1.1 billion. The figures have now come to hand for 1975 and that imbalance of trade is \$1,277,000,000. The best estimate we have been able to make is that by 1980, if the present trend continues, that imbalance of trade is going to be over \$2 billion a year.

In my opinion, that is something that this country should not accept. I do not think it is in the interest of the Canadian economy. I think that the amendment to the textile policy we have been talking about will, over the years, gradually bring about an improvement.

I do not know whether Mr. Brady has anything more to say on that trade liberalization point.

Senator Macnaughton: Mr. Chairman, just before, Mr. Brady begins, could you pinpoint the economic report you are referring to? Is it number 11?

Mr. Armstrong: That is the report of the Economic Council of Canada entitled, "Looking Outward. A New Trade Strategy for Canada."

The Chairman: Does it have a date?

Senator Macnaughton: That was approximately six months ago?

Mr. Armstrong: It was about six months ago. I do not have a date in this particular file. It was in 1975.

On this particular point, honorable senators, I do not want to appear negative or to try and take on Dr. André Raynauld of the Economic Council, because I am obviously not competent to do that. However, it seemed to me strange that of all the members of the Economic Council of Canada, only one is clearly identified as a manufacturer. Without exception, all the background papers quoted by the Economic Council were written by university professors. As far as I am aware, there was no input whatsoever from the resource or manufacturing sectors.

Wide use is made of the largely discredited concept of effective protection. The report makes much of lagging productivity growth but fails to point out that much of this is caused by a sharp increase in the number of jobs and the inefficient service sectors, including government, where the protection for productivity is severely limited.

The report argues workers, displaced by trade liberalization, can find work in industries which do not use standard technology. It does not really examine the point as to whether people in Canada have a desire to, or are really educationally and geographically able to work in the other sectors. Based on what we have heard from the textile labour unions, they are just not prepared to do it under any circumstances.

Senator Desruisseaux: At one of the recent meetings of this committee, Senator Buckwold mentioned the need for textile people out West; they could not be found to move out there. He complained bitterly about that. They will not move.

Mr. Armstrong: I do not really believe, Mr. Chairman, that Canada has this loosely worded "free trade option." I just do not believe we have this.

Mr. Brady: Honourable senators, I do not know how to embellish upon Mr. Armstrong's very good and very strong views on this. I am always at a loss to define what free trade is, when people talk about "free trade". Do they mean a simple removal of tariffs, be they on textiles or all other manufactured products? Do they mean this removal universally, unilaterally, bilaterally, with one country, or with all countries, or with a series of countries? There is a lot of definition required to get it within some kind of manageable level. There are an awful lot of other conditions of trade, other than that simple equation of tariffs. You get into the whole question of currency problems. Currency fluctuations, in my mind, have every bit as much of an impact on trade as tariff levels. You get into wage differentials. You get into guaranteed supply positions. You get into price stability in times of shortage. You get into restraint policies. You get into government subsidization of industries.

We know, not only in the textile industry but in many industries, steel and everything else, in many other countries governments are very closely involved in industries. Therefore, how do you get this fair and equitable condition of trade, if you just say that by simply removing a tariff that is going to create fair and equitable trade conditions? I do not believe so, without a real look at all these other factors.

If the proposition is to remove tariffs, be they on textiles or all other manufactured products unilaterally, it would be just a disaster for us at the present time.

To come back to the types of things we were talking about, in the textile area I think we have shown our liberalization in terms of share of markets, in terms of deficit. I think all these questions are being debated in the GATT at the present time, and I think that is where the debate has to go on.

What I would point out is that even without the GATT there has been very special acknowledgement that textile trading, not only in Canada but on a worldwide basis, is a very special thing, and this is what has resulted in this international agreement on textiles.

Textile trading is regulated. The nations of the world decided that some special rules were needed, and they put them into effect in 1962. They were renewed in 1970 or 1971, and they are up for renewal at the present time. So there is a world-wide framework of rules for textile trading, and it is called an Arrangement Regarding International Trade in Textiles. Basically, coming back to our own problem here, we are saying, fundamentally, "Just let us operate under the same rules as the U.S. and the EEC with respect to looking after our textile problems."

That is all I have to say, Mr. Chairman.

Senator Desruisseaux: Mr. Chairman, there was a suggestion of an amendment which could be made. When is that amendment expected?

Mr. Armstrong: We hope to have that for you within the next short period of time. We had hoped to have it today, as a matter of fact, but it turned out to be much more complex than we had originally anticipated. We do not want to present you with a draft amendment until we have examined it with great care. We hope to have that done very shortly.

The Chairman: And you have to decide where you are going to put it.

Mr. Armstrong: Exactly. That is what we discovered.

The Chairman: There are many areas, such as the Customs Act and the Textile and Clothing Board Act.

Mr. Armstrong: At any rate, I expect we will have the amendment shortly, honourable senators.

The Chairman: If there are no further questions, that is all the evidence we have from the industry for this morning. Thank you very much.

I should like to tell the committee now just where we are at the moment. The executive assistant to the Minister of Industry, Trade and Commerce called me last week to discuss the minister's appearance before this committee.

He told me the minister could not appear today but that the minister wishes to appear before the committee if we can set a date which is convenient. Apparently the minister would like to bring his assistants as well. In those circumstances, I am not sure that I can invite the lower echelon of the department, with the indication that the minister will come and bring them. But there are those in the department who deal directly with these questions. For example, the general director of the office of special import policy deals directly with this matter. In the circumstances, however, as a matter of courtesy to the minister, I think we ought to leave this matter in abeyance until such time as he can appear before us. In the meantime there is sufficient other work to occupy the committee's attention.

We will now adjourn.

Senator Desruisseaux: Mr. Chairman, before we adjourn may I ask if we have another union that is supposed to come before us on the textile matter?

The Chairman: We have just one. I am not sure as to whether they have actually requested a hearing. I understand the situation to be that they have prepared a brief, which might have as many as 200 pages, in French only.

Senator Desruisseaux: I believe it is more like 300.

The Chairman: They are busy translating it into English at the present time. When that process will be completed, I do not know. Mr. Jackson, have they actually asked to appear?

The Clerk of the Committee: Yes, Mr. Chairman.

The Chairman: So, as and when they are ready, and we have the time, we will hear them. Public bills, however, come first, and C-58 is a public bill. And, who knows, there may be other public bills in the meantime.

Senator Macnaughton: Mr. Chairman, I wonder if this is the time to express on behalf of the committee our thanks to Mr. Armstrong and his cohorts for the great deal of hard work they have put in, and for the interesting presentations they have made. Whether their presentations are right or wrong, I do not know at this time, but the work effort was there.

The Chairman: I would add one word to what you have said. After the word "interesting" I would say, "and informative."

Hon. Senators: Hear, hear.

The Chairman: We will now adjourn.

The committee adjourned.



Government
Publications

FIRST SESSION—THIRTIETH PARLIAMENT
1974-76

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
**BANKING, TRADE AND
COMMERCE**

The Honourable **SALTER A. HAYDEN**, *Chairman*

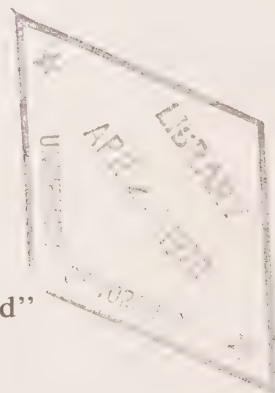
Issue No. 81

WEDNESDAY, MARCH 31, 1976

Complete Proceedings on Bill S-33 intituled:
“An Act respecting United Grain Growers Limited”

REPORT OF THE COMMITTEE

(Witnesses: See Minutes of Proceedings)



THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Austin	Hays
Barrow	Lafond
Beaubien	Laird
Buckwold	Lang
Connolly	Macnaughton
(<i>Ottawa West</i>)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
Everett	Smith
*Flynn	(<i>Colchester</i>)
Haig	Sullivan
Hayden	Walker—(18)

**Ex officio* members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, March 24, 1976:

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Molgat, seconded by the Honourable Senator Carter, for the second reading of the Bill S-33, intituled: "An Act respecting United Grain Growers Limited".

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

The Bill was then read the second time.

The Honourable Senator Petten moved, seconded by the Honourable Senator Côté, that the Bill be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate

Minutes of Proceedings

Wednesday, March 31, 1976

(105)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m.

Subject: Bill S-33—"An Act respecting United Grain Growers Limited."

Present: The Honourable Senators Hayden (*Chairman*), Barrow, Beaubien, Buckwold, Connolly (*Ottawa West*), Cook, Desruisseaux, Hays, Lafond, Laird, Macnaughton and Smith (*Colchester*). (12)

Present, not of the Committee: The Honourable Senators Cottreau, McNamara and Molgat. (3)

In Attendance: Mr. R. L. duPlessis, Law Clerk and Parliamentary Counsel.

The Committee proceeded to the consideration of the above subject.

WITNESSES:

United Grain Growers Limited:

Mr. A. I. Runciman, President;

Mr. G. R. Hunter, Q.C., Counsel;

Mr. J. Wachal, General Manager; and

Mr. R. G. Belfoi, Parliamentary Agent.

After discussion and upon motion duly put, it was *Resolved* to report the said Bill without amendment.

At 10:45 a.m. the Committee then proceeded to the next order of business.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

Report of the Committee

Wednesday, March 31, 1976

The Standing Senate Committee on Banking, Trade and Commerce to which was referred Bill S-33, intituled: "An Act respecting United Grain Growers Limited", has, in obedience to the order of reference of Wednesday, March 24, 1976, examined the said Bill and now reports the same without amendment.

Respectfully submitted,

Salter A. Hayden,
Chairman.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, March 31, 1976

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill S-33, respecting United Grain Growers Limited, met this day at 9.30 a.m. to give consideration to the bill.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, we have with us: Mr. A. M. Runciman, President, United Grain Growers Limited; Mr. G. R. Hunter, Q.C., Counsel; and Mr. R. G. Belfoi, Parliamentary Agent.

I have a letter from our Law Clerk advising us that in his opinion the bill is in proper form, and that if enacted by Parliament it would accomplish its objects by amending the company's act of incorporation for the purposes set out in the petition.

Mr. Runciman, will you now make your opening statement?

Mr. A. M. Runciman, President, United Grain Growers Limited: Thank you, Mr. Chairman.

Honourable senators, we appreciate this opportunity to appear before you this morning in order to speak to you briefly about Bill S-33 and discuss its contents. We will be most happy to answer questions if that is your wish.

United Grain Growers is the oldest of the producer grain handling organizations in western Canada. Its history, essentially, has been that of the development of agriculture in that part of the country. The company has grown in pace with that development. Our capital has been increased a number of times over the years, and the requirement at this time for a further increase is a natural outgrowth of the continuing development on the agricultural industry in western Canada.

We are very closely tied to both the primary grain elevator system of the west, and the terminal elevator system. We operate terminals at Thunder Bay and at Vancouver, and primary elevators right across western Canada. Quite an amount of additional capital expenditure is required in that area at this time, and we feel a need for such expansion.

There are three main factors. The increase of the authorized capital of the organization is an important feature, as is the case with regard to the increase of the permissible dividend and the limitation on the number of shares that may be held by any one individual.

In establishing this company, the gentlemen of that day who undertook the task were anxious to preserve some of the principles which are usually considered to be part of the co-operative approach, and this has been done. One of these principles was that of limited return on share capital. As a result of the high levels of interest that have

prevailed at prime rates in recent years the limit which presently exists on the dividend rate that we can pay has not been what we consider a fair return for the capital that is invested, and the object of our desire to increase the maximum to the 80 per cent level would be to give to those producers who invest in "A" shares a return which would be commensurate with the returns they might receive on some other type of investment.

Very simply, Mr. Chairman, these are the three items which we have in the bill, which are quite important to the on-going development and successful operation of our company.

The Chairman: I have one question that I would like to get an answer to. Can the holder of a Class "B" membership share also be the holder of a Class "A" share?

Mr. Runciman: Very definitely.

The Chairman: Then, following from that—and perhaps your counsel should answer this—as a holder of a Class "A" share he is not entitled to take part in any meeting or to be a delegate to a general meeting, so how do you cut him up to decide what part of him may attend a meeting as a membership shareholder, and to what part of him you say, "No" at the door because he is a Class "A" shareholder?

Mr. Runciman: Well, I will defer to our legal counsel on that, but the practical detail is that we admit the "B" share part of him and that part of him takes part in the meeting.

Mr. G. R. Hunter, Q.C., Counsel, United Grain Growers Limited: That is correct, Mr. Chairman. The charter as reflected in the original statute of 1911 to 1966—and to be continued with this bill—says that to be a Class "B" shareholder you have to qualify as a farmer or a spouse. A Class "A" shareholder does not have to be a Class "B" shareholder, but if he is a farmer, then he may be so. But there are people who may not wish or desire to be a Class "B" shareholder but through the patronage they give the company are entitled to have "A" shares. But if an individual does qualify within the meaning of the act, then certainly he is entitled to apply to become a Class "B" member. There is no blocking off.

The Chairman: I think perhaps the answer might be that if he is a Class "B" shareholder then he is entitled to come to the meeting. If he has other things in his pocket he does not have to mention them.

Senator Beaubien: What does a Class "A" share pay and what does a Class "B" share pay?

Mr. Runciman: They have to receive the same dividend. That is provided for in the by-laws and in the charter. Whatever is declared on the Class "A" shares must also be declared on the Class "B" shares.

Senator Beaubien: But one has a par value of 20 and the other has a par value of 5.

Mr. Runciman: That is right, but the same percentage rate must apply.

Senator Connolly: How many shareholders have you?

Mr. Runciman: We have 65 thousand and some-odd hundred who hold "A" and "B" shares. We regard that 65,000 as being our members because any one of them could appear at a local meeting and participate in the activity of the local meeting.

Senator Connolly: What percentage of the total number of producers would that be, roughly?

Mr. Runciman: In the last crop year there were about 165,000 Wheat Board permit books issued in western Canada.

Senator Connolly: So this would be 50 per cent?

Mr. Runciman: Well under 50 per cent; I would say about two-fifths. A "B" shareholder does not have to be a customer all the time. We may have men who are customers and became "B" shareholders and who have decided to take their business elsewhere so there is not a constant figure for the number of actual customers in a given year, but they are entitled to retain their "B" shares whether actively delivering grain to our system or not.

The Chairman: How do they qualify for acquiring "A" shares?

Mr. Runciman: They must be bona fide farmers and they must be a customer of the company at the time they acquire them.

The Chairman: They must be selling their product to the company at that time?

Mr. Runciman: Yes. They could also be buying. We also deal with inputs to agriculture, fertilizers, twines and things of that kind. They might be customers for things of that sort and they would still be eligible. But the key factor is that they must be bona fide farmers before they can receive a "B" share, and also the transfer of a "B" share from a present holder must be approved by the board to ensure that it is going to another bona fide farmer or his spouse.

The Chairman: May a shareholder be a corporation?

Mr. Runciman: No, it has to be an individual.

Senator Beaubien: What was paid on the "A" shares in the calendar year 1975?

Mr. Runciman: Six per cent.

Senator Buckwold: That would be the statutory limitation?

Mr. Runciman: No, the present statutory limitation is 6 1/2 per cent, but since 1966, the last time there was an amendment to our charter, we started to pay 6 per cent. Prior to that we were limited to 5 per cent and then we moved to 6 per cent and we have paid 6 per cent in each year since 1966.

Senator Beaubien: So the "A" shares paid \$1.20 and the "B" shares paid 30 cents.

Mr. Runciman: Yes, and the procedure there is that we are allowed to accumulate over a four-year period and then pay it out when it amounts to something a little more substantial.

The Chairman: Why are you increasing the share capital?

Mr. Runciman: Our business has been developing in a very satisfactory manner over the years, but particularly in recent years. Our total assets on our balance sheet as recently as 1966 was \$79 million. In 1975 it was \$193 million. We issue Class "A" shares to farmer customers in partial payment of patronage dividends and over the years we have reduced the shares in the treasury to the point that we would have to discontinue doing that, but we would like to continue in that way because it is acceptable to our membership. They welcome this procedure and have approved it from time to time, and we are approaching the point where we would not have the shares in the treasury to enable us to continue that practice.

The Chairman: So the Class "A" shares have been—and you intend to continue this with the increased number—used as part of the consideration that you pay for the acquisition of product from customers?

Mr. Runciman: That is a good interpretation.

Senator Cook: The dividend on the "A" shares is paid on the tax-paid profits?

Mr. Runciman: Yes.

Senator Cook: So that the dividend is entitled to dividend credit?

Mr. Runciman: That is right.

The Chairman: Are these tax-paid dividends that you pay on the "A" shares?

Mr. Runciman: Yes.

Senator Connolly: In other words, the company pays the tax?

Mr. Runciman: That is right.

Senator Buckwold: What happens to shares on the death of a shareholder? Are they redeemed by the company or are they passed on in the estate?

Mr. Runciman: The "A" shares remains part of the estate and can be disposed of in whatever way the executors deem appropriate. In the case of the "B" shares, the company has the authority to repurchase them. If they are not willing to a bona fide farmer, and we can approve the transfer, then the only method of disposal is to sell them back to the company.

Senator Beaubien: At par?

Mr. Runciman: At par on the "B" shares.

Senator Connolly: Do you have any trouble about transmissions like that? You have the discretion to decide whether it should go or not?

Mr. Runciman: That is right.

Senator Connolly: Do you run into any trouble in that situation?

Mr. Runciman: Very, very little. I cannot recall running into and actual case of having any dispute over it. It is really so self-evident as to whether the individual to whom the transfer is made is indeed a farmer or not, that we have no difficulty in that regard.

Senator Connolly: You said earlier that some producers "go elsewhere". Where is "elsewhere"?

Mr. Runciman: We do have a competitive grain market at many points in western Canada. There are privately owned companies, and then you have, for example, the Manitoba Wheat Pool, the Saskatchewan Wheat Pool, the Alberta Wheat Pool in the various Prairie provinces. For competitive reasons a farmer may decide that he can get a better grade or he likes the appearance of the elevator manager or he likes the standard of service he is receiving from these other companies and he will switch for these reasons.

Senator Desruisseaux: There was an article published some time ago, that I recall reading, about farmers going to these other companies because they were unhappy. Do you recall that article?

Mr. Runciman: I don't think I am familiar with the specific article, but there has been a good deal of what I consider to be productive competition between the grain companies, private and farmer owned, over the years in attempting to offer the best standard of service, and I think the farmers have profited from that competition.

Senator Laird: Are all your shareholders in the western provinces?

Mr. Runciman: Not all of them. A farmer may retire and move to Eastern Canada or out to British Columbia and is entitled during his lifetime to retain whatever shares he holds.

Senator Laird: I own four acres in Ontario which are being farmed. Am I eligible?

Mr. Runciman: No, not unless you were to become a customer of the company. I would say that if you were to start buying feed grain from United Grain Growers you could be contemplated as a customer.

Senator Molgat: You have a limitation on the Class "A" shares that can be held by any one individual. How widely are your Class "A" shares dispersed? How many shareholders are near or at the limit?

Mr. Runciman: To my knowledge—and I can check this with my staff people who are present—there have been only five shareholders who have held the maximum permissible. At the present time it is 2,500. We find that the great majority of people held from one to 100 shares up to 1966, when the limit was 250. The reason we requested an increase at that time was that some farmer-members were interested in acquiring more than that and were a little annoyed at the limit of 250.

The Chairman: You say there is a limit on the Class "A" shares, and no person is entitled to acquire more than 5,000.

Mr. Runciman: That is correct; it was 250 shares until 1966, at which time it was changed to the present limit of 2,500 and we are now seeking this to be increased to 5,000. We require the upper limit because these shares can be purchased by anyone and there would be nothing to pre-

vent a group acquiring, for instance, \$1 million worth and, perhaps, feeling in that event and with that type of representation that they would be entitled to exert some influence.

The Chairman: Is there anything preventing you from offering Class "A" shares to the public?

Mr. Runciman: Nothing at all. In fact, one year we issued a prospectus and did sell approximately 40,000 to the public.

The Chairman: With the same limitation on the amount that any one individual or other person could acquire?

Mr. Runciman: That is correct.

Senator Cook: With the maximum rate of eight per cent, you do not anticipate any . . .

Mr. Runciman: At the present time the rate is six and one half per cent and we are requesting that it be increased to eight per cent.

Senator Cook: Do you anticipate any difficulty in realizing the additional \$13 million?

Mr. Runciman: Our usual approach would be to simply issue those as farmers earned the right to them by their deliveries of grain. They would go out gradually over a period of time. We would not be seeking to sell them to the public as, in fact, we have done that on only one occasion.

Senator Desruisseaux: What is the current price of these shares?

Mr. Runciman: They have been trading in the last three months at between \$11 and \$12.50. This is one of our concerns; they act, in effect, in the same manner as bonds, rather than shares. The price varies with the interest rate, rather than with the value of the assets of the company. It is really in fairness to the person who bought the shares at \$20 that this is done, in order to simplify the process of exchanging them.

Senator Cook: You have no difficulty in earning your dividend requirement?

Mr. Runciman: We have not had up until now and we hope it will continue that way. We did miss three dividends, in 1936, 1937 and 1938. Other than that, we have paid dividends every year.

Senator Cook: You forgot about that.

The Chairman: Do the members vote one vote per member, or one vote per share?

Mr. Runciman: No, it is one vote per share, Mr. Chairman.

Senator Macnaughton: Do you have good attendance at your annual meetings?

Mr. Runciman: The first stage of the meeting of our members is at the local level. Every shareholder is attached to one or other locals throughout the Prairies, which holds annual meeting. They elect delegates to attend the annual meeting of the company. Three hundred and thirty of those delegates assemble for the annual meeting and we have very good attendance throughout a two-day meeting, at which we go through the normal business of a corporation such as the annual report and financial statements. We then carry on a good deal of

business relating to agricultural policy and that type of topic. So we have two days of participation by this delegate body, which is an elected delegate body and at that annual meeting elects the directors of the company.

Senator Connolly: How do you determine the boundaries of the localities for the local meeting?

Mr. Runciman: It is usually determined by the area tributary to a grain delivery point. If a farmer chooses point X as his delivery point, that location will govern where he attends the local meeting or, if he requested to be attached elsewhere, we would arrange for that. The significant point, however, is that he can only appear at one annual meeting and cast his vote at that meeting.

The Chairman: Is there any definition of "farmer" in your charter?

Mr. Runciman: No, not a definition of "farmer", as such. Over the years it has simply been determined by the fact that a person produces a commodity for sale. Since we are basically a grain company, perhaps the best criterion is the possession of a Canadian Wheat Board permit, because a grower could not enter our elevators to sell grain to the board without such permit.

The Chairman: Then he has to be a person who grows grain?

Mr. Runciman: With the single exception I mentioned earlier, that he might be a user of animal feeds, fertilizers and products of that nature. Some operations utilize all the grain that is grown on their farms and make large purchases of animal feeds, fertilizers and other supplies.

The Chairman: Would you include equipment?

Mr. Runciman: We sell a very limited range of equipment, just minor farm tools. We do not go into farm machinery.

Senator Hays: Supposing that I am a barley grower and grow 40,000 bushels, all malting barley, which I ship to you and due to your distribution line you orient only 10,000 bushels of it for malting, the rest going in as feed barley. If there is a malting pool, I would probably receive, hopefully, three dollars a bushel for the malting barley and something like two dollars for the other barley. Now, I have given you \$30,000 worth of business, plus \$30,000 for the malting and \$30,000 for feed. I have done \$90,000 worth of business with you, and in order to do it I had to buy \$20,000 worth of fertilizers. That amounts to \$110,000 worth of business with you. What would my dividends have been on that amount of business with United Grain Growers and multiplied 10 times?

Mr. Runciman: It would vary from year to year, depending on the results.

Senator Hays: Could you tell me what would have happened if this had been the case during last year?

Mr. Runciman: You would have received, in round figures, a patron's dividend of three cents per bushel. It is related to the number of bushels, not to the value of the commodity. The reason for that is that our handling tariffs are based on bushels and our earnings for having handled that grain are based on that fixed tariff. So we allocate the dividend on the basis of bushels. Prorating it to bushels, last year it was two point something cents, very close to three cents.

Senator Hays: How would I receive that money?

Mr. Runciman: You would receive that partly as a cash payment and partly as a deferred payment. We defer the credit for ten years, with interest at six per cent. By the end of 10 years you would have received all the money with which you were credited in the given year.

Senator Hays: So, if I had belonged to the organization last year I would have received roughly three cents a bushel, of which you would receive one and a half cents in deferred and one and a half cents per bushel.

The Chairman: When you say "deferred," do you mean tax deferred?

Mr. Runciman: No; we defer the actual payment, setting up a credit in the farmer's name, rather than paying cash to him.

The Chairman: As I understand this business of cash paid surplus, you have a surplus on which the company will pay at 15 per cent. That will clear it up until December 31, 1971. You can then have your surplus which you have accumulated since that time, which is taxable on distribution. In a lot of the companies there is a provision whereby those two classes of shares are exchangeable; so that you can enjoy the tax deferred position so long as there is any tax paid money to distribute. You can then elect to switch over to the other type of share, and you receive an added quantity by way of dividend in order to make up for the preferred position which the tax paid shareholder has enjoyed. That is the usual way I have seen it set up.

Mr. Runciman: Perhaps some clarification might be helpful here. So far as dividend on "A" and "B" shares, that we have been talking about, is concerned, that payment all comes from tax paid retained earnings. The money that we would be distributing to a customer such as Senator Hays would be earnings of the current year. By allocating that credit to him, he would become the recipient of that money minus the 15 per cent that you referred to, and it would be taxable in his hands.

Senator Connolly: Did you say, Mr. Runciman, that the payment to Senator Hays after you have paid the 15 per cent, is taxable in his hands?

Mr. Runciman: Yes, in the year in which it is set up as a credit.

Senator Connolly: So it is tax paid so far as the company is concerned, but not so far as the shareholder is concerned?

Mr. Runciman: That is right.

Senator Buckwold: Does he not get a tax credit?

Mr. Runciman: On the 15 per cent, yes.

Senator Hays: If I ship 40,000 bushels of grain, I receive roughly \$1,200—is that right?—of which \$600 is deferred for 10 years and \$600 you pay out.

Mr. Runciman: I do not want to complicate this by going into the variation from year to year. Depending on the level of earnings, one of the functions of the annual meeting is to determine the manner in which the distribution shall be made. In some years they determine that there shall be a partial payment in cash, and in others they determine that it will all be deferred. It works out in principle in this way, that we usually put about one-third

of our total net earnings into retained earnings, a third goes for tax purposes, and a third to the customer who did business with the company and made it all possible.

So that is a ball park set of guidelines for the distribution of the funds in any particular year, but there may be the added element of a cash payment in some years. The year before last we had a particularly successful year. The money being distributed to the customer was going to add significantly to his personal income tax burden; so we made a cash payment that year which, in effect, covered his cash cost of the income tax on the amount he received. This year we did not do it that way.

Senator Hays: There is not so much of a burden in the amount you give on \$100,000, when \$600 is deferred for 10 years?

Mr. Runciman: No.

Senator Hays: Let us get back to the purchase of fertilizer. If one bought \$10,000 worth of fertilizer, what would the customer receive in the way of patronage dividend and so on?

Mr. Runciman: On fertilizer up to this time—again, this is a decision of our delegate body—we have not been paying patronage dividend on any regular basis. The answer that the delegate body has given us is “Keep that money and give us better fertilizer distribution facilities. Anhydrous ammonia is a type of fertilizer that is coming into widespread use. The plants for handling it are quite expensive to establish. Farmers are anxious to have it, and they say, “Use that capital for building those facilities.”

Senator Hays: So, really, on the purchase there were no patronage dividends?

Mr. Runciman: Not on purchases of farm supplies, as such.

Senator Hays: Just on the sale of grain?

Mr. Runciman: Yes.

Senator Hays: So if you did this for 10 years, and you left it all in, you would defer \$6,000 on \$1 million worth of business, roughly, as a producer?

Mr. Runciman: That is right.

Senator Hays: How does that compare with the Alberta Wheat Board? What would they receive?

Mr. Runciman: They would receive more in a given year, but it is an indefinite deferment without interest. Ours is a specific deferment with interest.

Senator Hays: I do not often have an opportunity to ask you these questions, because you are a busy man. I am a pretty good customer of yours, as you probably know.

Mr. Runciman: Yes, I know.

Senator Hays: I am wondering, if I shipped exactly the same to the Alberta Wheat Pool,—or my neighbours did—what would I receive in the way of patronage or dividends? Both the Alberta Wheat Pool and your organization are farmer owned.

Mr. Runciman: Yes. If I may speak on behalf of the Alberta Wheat Pool, which I do with some hesitation, their pattern has been to pay some cash each year every year. They also pay, on the average, a higher amount per bushel

than we do. If you make allowance for the fact that the part that is deferred is deferred indefinitely, if you are a young farmer of 25 you can expect to receive that when you retire at 65. They do not pay interest in the meantime. At today's interest rates you can calculate what the value of \$10 today would be 40 years down the road.

Senator Hays: How much extra would they pay per bushel?

Mr. Runciman: I am a little vague on that. It varies from year to year.

Senator Hays: We are talking about last year.

Mr. Runciman: I cannot be precise about that. Five cents as against our three. They paid part of that—I think it was 1.2 cents—in cash last year.

Senator Hays: They paid 1.2 and you paid 1.5?

Mr. Runciman: For 1975 we made no cash payment. We deferred any of the dividend that was to be paid for 10 years with interest. Their preferred portion went for an indefinite period of years without interest. If a person runs a calculation on the ultimate value of those two sums, it really works out that there is not very much difference.

Senator Hays: With regard to the anhydrous ammonia, at your locations you do not have the equipment to distribute that?

Mr. Runciman: No. For anhydrous ammonia the plant and equipment is too expensive to have it at each individual point. We tried to divide provinces up by regions and make the product available to farmers without any undue driving distance, but we would probably cover the province of Alberta ultimately with a maximum of seven outlets or something of that sort. It runs in excess of half a million dollars to put in a unit for the distribution of anhydrous ammonia.

Senator Hays: You said you did not pay dividends because you wanted to service these.

Mr. Runciman: That is right. The delegations encouraged us, first of all, to be competitive in price, and recommended that, having achieved that, any earnings made beyond that point should be used to improve handling facilities. That applies to facilities for handling dry product as well as the anhydrous.

Senator Hays: I hate to take up the time, Mr. Chairman . . .

The Chairman: I think you are doing a useful service for the members of the Commons committee in getting some investment advice.

Senator Hays: I am interested in your distribution of malting barley. How do you distribute the allocation of cars, and that sort of thing?

Mr. Runciman: This gets into another region, the area of the fact that we operate as agents of the Canadian Wheat Board. We do not determine what becomes malting barley. The maltster determines that by selecting it. This is a situation which creates a good deal of uncertainty and even dissatisfaction at times. A man may have a sample of barley—let us say grade 2 CW, an excellent barley. The maltster may not feel that he wants that barley at that time and he may select a carload of barley that is No. 1 feed, a lower grade, but is suits his maltster's purpose. The

point that is difficult for many people to grasp is that malting barley is not a grade of barley. It becomes malting barley at the maltster's choice. The maltster can use a range of barleys for his particular purpose. It only becomes malting barley when he applies for a permit to ship it, and that permit is issued by the Canadian Wheat Board.

Senator Hays: But if he is selling two-row barley or six-row barley, it is malting barley, and you determine whether it goes to Canada Malt or to the coast. Is that not right?

Mr. Runciman: No, senator Hays. The maltster determines that. We submit samples to the maltster on behalf of the producer, and if the maltster decides he wants a carload of that barley, we then apply for a permit to ship it. It is not our determination; the determination is made by the maltster.

Senator Hays: I agree with you, but if there was a large order for Betsy barley, two-row barley, from Canada Malt, as I understand it, you are the people who determine whether two carloads come from Pidsbury and six carloads from High River.

Mr. Runciman: Not on malting barley, senator.

Senator Hays: Well, I do not see how the producer could make the determination. The producer deals with your agent, and it is your agent who determines whether a carload goes to Canada Malt or wherever. You people talk to the malting company, which might order all kinds of a certain type of barley. It is the grain company that decides which elevator the Betsy barley comes from.

Mr. Runciman: There is another process, the selection for company accounts. We could make a bulk sale to a maltster, but again we would have to buy that barley from the Canadian Wheat Board at the Canadian Wheat Board price.

Senator Hays: But am I right in saying that you determine where it comes from? That is what I am trying to determine. I may be wrong.

Mr. Hunter: If I may, Mr. Chairman, I think I know the point Senator Hays is trying to make. I was recently retained as counsel by a number of people in Alberta who brought an action against the Canadian Wheat Board in connection with the very point Senator Hays is raising.

It is my understanding from discussions with those people that most of the grain that is brought into country elevators is fungible. It loses its identity. There is special binning, and practically all barley is special binned. A sample of that barley is then sent to either Calgary or Winnipeg, depending on whether it is Canada Malt or Dominion Malt, and if it proves satisfactory, they then buy it from the Canadian Wheat Board through the grain company, as agent for the Wheat Board, that shipped the sample in. There is a premium paid on whether it is two row or six row barley, and that is paid to the producer. In the meantime, the Wheat Board is selling that malt barley, whether it is two row or six row, at a higher price than feed barley, which is one of the complaints of the Western farmers, particularly the Alberta producers of barley, who are considered to produce the best grades.

I know what you are getting at, Senator Hays, but the grain company as such does not benefit. It is merely the agent of the Wheat Board.

Senator Hays: But the agent is the one who determines where that barley will go, is he not?

Mr. Hunter: No, he simply ships it in. In most cases, malt barley is special binned, and as the agent for the Canadian Wheat Board ships it in. It is the malting companies who then decide whether or not they want to buy it, in which event the ordering of box cars is still under the control of the Canadian Wheat Board. I think Senator McNamara knows much more about this.

Senator Hays: He knows my feelings on it. I have discussed it with him many times.

To give you an example, I have a neighbour who has 100,000 bushels of malt barley. It is two row barley, Betsy barley. He sends samples in, and those samples might, at times, be feed and sometimes 2 CW, both of which would come out of exactly the same bin. Without a pool, he would get \$3 for the 2 CW. He would probably get an additional 15 cents above his \$2 without a pool, whether it was feed or malt barley. I suppose the Board of Grain Commissioners grades it. Is that correct?

Mr. Runciman: Yes, but it does not determine whether it will become malt barley, or whether the maltster calls it feed or malt barley. The maltster just says he will take a particular selection.

Senator Hays: In your opinion, then, do you think the Board of Grain Commissioners should grade all of these barleys rather than the maltster?

Mr. Runciman: The farmer selling the barley has the inherent protection of submitting a sample to the Canadian Grain Commissioners who will then grade it in accordance with the regulations. We then get into this grey area that we have been discussing. The maltster can use a wide spectrum of barleys under varying circumstances. It may be at one point the malting company may want the very best that is available, in which case it would go to the 2 CW; two days later, however, it may select one feed, or even, on extreme occasions, two feed barley. This is where a great deal of the misunderstanding arises. The maltster does not have to use any particular grade. The Board of Grain Commissioners, on the other hand, will grade barleys in accordance with the standards set out in the regulations attached to the Canada Grains Act.

Senator Hays: If a producer requested a regrade and the Board of Grain Commissioners graded it as 2 CW, would the malt company have to respect that?

Mr. Runciman: The company, I think, would have to pay for it on the basis of the unloaded grain, regardless . . .

Senator Hays: But the company would not pay any more whether it was 2 CW or feed, would it? It would pay \$3.57.

Mr. Runciman: The board would sell it to the company on the basis of its selling price for that particular grade at that time. If the car unloaded was 2 CW, I am sure the company would pay the board the 2 CW price for it.

Senator Hays: But the company pays \$3.57 for malt barley from the board, regardless of whether it is feed barley or 2 CW. Is that not correct, Senator McNamara?

Senator McNamara: No, not quite. I think the point that has been overlooked is that after the producer delivers his grain to the elevator, special binned, as Mr. Hunter point-

ed out, a sample is sent in for the maltster to inspect. The responsibility of the elevator company, having delivered that sample, is to ensure that subsequent shipments, if purchased by the company, are of the same standard. If the carload, on delivery, is not up to the standard of the sample, the maltster will reject it. The responsibility of the elevator company is to preserve the special bin identity. If it can be proven by application to the Grain Commission that the barley became mixed at the country elevator, or the shipment was not up to the standard of the sample submitted on behalf of the company, then the elevator company can be held responsible by the Grain Commission.

Senator Hays: But what does the company pay for the barley, whether it is feed or 2 CW?

Senator McNamara: I did not answer the first question. The Wheat Board has two prices. It will sell feed barley in eastern Canada or overseas at one price whether it is 2 CW or feed. However, if it is for purchase by a maltster, it is the highest price, and that higher price would be reflected back to the man who had delivered the malt barley that was accepted by the maltster.

Senator Connolly: If the malt company buys feed barley, is it at the feed barley price?

Senator McNamara: The price is according to grade, yes.

Senator Cook: It seems to me that eastern Canada loses out.

Senator Hays: I understand from Canada Malt that they pay the same price for malt barley . . .

Senator McNamara: They only accept malt barley.

Senator Hays: I realize that, but they pay \$3.57 per bushel for malt barley.

Senator McNamara: This is up to the Wheat Board.

Senator Hays: That is right, whether it be 2 CW or feed.

Mr. Runciman: I think the point we are getting hung up on here is that if we have a carload in store going, for the sake of discussion, for feed, if it were sold to go as feed barley, the price might be, for the sake of discussion, \$3. If the Wheat Board's selling price for malting barley selected for malting happens to be \$3.75, they would end up paying \$3.75 for that same barley. It depends whether it is selected for malting or whether it does go for feed; there is a 75 cent spread there. I think that is the seat of the concern that is being expressed in southern Alberta at this time.

Senator Hays: Suppose a man saves 100,000 bushels of malting barley, and then comes along about this time of the year and the crop year ends of August 31; he has been assured by your people, "Don't worry about it. There will be all kinds of malting barley. We will get it out. Just go ahead and hold it." In the meantime the price drops from \$2.81 to \$2 and you are holding it for malting; one day your agent phones up and says, "They have shut it off. It's all over. I am sorry." You lose \$1 a bushel on 80,000 bushels, which is \$80,000, which multiplied by 10 years is pretty nearly \$1 million.

Mr. Runciman: On those figures it is certainly significant, but it really comes down to the fact that there are several hundred million bushels of barley grown in west-

ern Canada each year, but only between 20 million and 30 million bushels are selected for malting; this is where the problem comes in. The Wheat Board sells what does go for malting at a premium, which is in the interests of farmers as a whole. However, it appears to be discriminatory against those farmers who do not share in that higher price.

The Chairman: When do you have a firm price, Senator Hays?

Senator Hays: You have a firm price for feed barley when you protect it on the option market at anything you want to. Last year you could have protected barley at \$2.81.

The Chairman: I was thinking of your example, if the owner of the barley is told to hold it and then the price drops. At what stage does he have a firm price?

Senator Hays: He only has a firm price when he delivers it. The farmer stores the barley because he cannot afford to send it to Mr. Runciman. In about six months he would be broke at their storage costs. He stores the barley and pays for the storage; he holds it. The only person who advises him would be Mr. Runciman's agent, who would say, "You have got malting barley. Send it in." You have it checked; you have grown 10 per cent less because you have grown malting barley for this special market; it gets to the end of the crop year and you are sitting with your barley, then one day he tells you, "Well, we are all filled up. Sell it for feed." They need fresh barley for malting barley; they don't want old barley, so you are stuck with a great big loss.

I am sorry to have taken so much time, but my final question to Mr. Runciman is this. Do you think it pays the farmer to grow malting barley or should he be growing barley on which he can get a 10 per cent better yield and forget about it?

Mr. Runciman: I do not think it paid to grow malting barley when the premium was only five cents, ten cents or fifteen cents. I think it does pay to grow barley with the chance of getting malting. The point is that there are so many more acres of malting barley put in than can ever be used for malting. I think the average individual realizes that his chances of selling all that he grows in a given year are pretty slender, so they grow a mixed type; they will sell what they can for malting, knowing that it probably will not be their total production, and the rest has to go, as you suggest, into regular feed channels. The really good barley grower tends to go for specialization in one or the other; he will go for barley as a feed grain or he will go for quality and hope he will get more than his normal percentage of shipping.

Senator Hays: If the amendments of Parliament are put through we will have a malting pool this year, I understand.

Mr. Runciman: Yes.

Senator Hays: If we have a malting pool this year we will probably have one next year. If 20 per cent is used for malting barley, in your opinion would it pay to grow malting barley or not, with the increased yields like the new Klondike barley that produces 16 per cent more than any malting barley, when you are talking about \$32 to the acre of something like that?

Senator Cook: Be careful now. It may cost you money.

Mr. Runciman: I would regard it as a management decision for an individual farmer to make.

Senator Hays: If you were a farmer, what would you do?

Mr. Runciman: In the past, when I was farming actively, I grew some barley of malting quality every year. In those years we were usually restricted to one or two cars per producer, and that was the limitation, so you did not go hog-wild on it. In recent years there has been a greater demand, and because of poor quality in one or two recent years there was almost an open shipping privilege if you had the quality. Under any sort of restriction of one, two or three cars per year per producer, normally a farmer would grow enough acres to ship perhaps two or three cars of barley and let it go at that, and the rest of it will be feed types of barley.

Senator Hays: Do you try to hand out enough malting barley so that each one of your customers gets two or three cars?

Mr. Runciman: Again there is just no element of choice in our mind. It is all in the mind of the maltster's selector. We have a man whose specific function is, in both Calgary and Winnipeg, to contact maltsters every day, trying to get as much malting barley out on behalf of our customers as possible. However, none of the decisions on what becomes malting barley is ours, beyond the point of being able to convince the maltster that he should take that particular sample.

Senator McNamara: Mr. Runciman has made a point that I think should be understood fully by the committee. It depends on the demand for malting barley how many permits the Wheat Board will allow an individual maltster. They usually start out with only one carload to a producer to be accepted. If the demand for malting barley increases, they will open it up to two cars or three cars. It all depends on the quality of the barley that year and the demand of the maltsters.

There is another thing that I think is still happening. When a producer has a car accepted for malting, in addition to the initial payment price and the subsequent final price the maltster pays that producer a premium over and above the board's initial price.

Mr. Runciman: Now 15 cents.

Senator McNamara: If he gets a carload accepted, in addition to the board's final price he is getting 15 cents a bushel on that particular car if the maltster is accepted. The non-malting barley does not get that; it is only select-people who do it.

My last point is this. Who pays the final price? I think everybody would agree that the final price of what is determined by when the Wheat Pool closes its account and makes its final price. That is the price for feed barley; that is when the definite price is realized, after the pool account has been closed for the crop year; that determines the price the feed or maltster producer gets.

Senator Hays: There is a \$1 difference. It is a big price. It is \$2 or \$1.85 for feed and \$3 for malting barley. You maintain, Mr. Runciman, That you do not have anything to do with the distribution of malting barley cars when you get an order to ship certain barley; that is all the decision of Canada Malt or one of the maltsters.

Mr. Runciman: They have to select.

Senator Hays: So if I want to sell 20 cars loads I must go to the maltster and say, "I have got 20 car loads of bonanza barley; it is all malting. You have agreed with the sample and I want to sell you 20 cars." What you are saying is that I should talk to them.

Mr. Runciman: Then the board would have to agree to issue the permits to ship that barley.

Senator McNamara: One car or three.

Senator Hays: One or twenty. So it is the maltster who makes the decision.

Mr. Runciman: Yes.

Senator Hays: You have nothing to do with that decision.

Mr. Runciman: That is right.

The Chairman: Mr. Hunter, I wanted to ask you one question. We have been talking about tax paid surplus. Is this the tax paid surplus at January 1, 1972? Is that what we are talking about?

Mr. Hunter: Perhaps I might be allowed to defer that to Mr. Wachal, who is the general manager.

Mr. J. Wachal, General Manager, United Grain Growers: As far as I am aware, our company has a tax paid surplus. But that surplus is just that: it is a tax-paid surplus which can be distributed among the shareholders without any further taxation.

The Chairman: I thought Mr. Runciman said that that money paid out of tax-paid surplus is tax deductible when it gets into the hands of the shareholders. The whole purpose of a tax-paid surplus and paying it out is that it goes to the shareholder without any further tax.

Mr. Runciman: Excuse me, Mr. Chairman. I thought I had made the clarification that the dividend on shares was paid out of the tax-paid surplus.

The Chairman: May I point out that recently Algoma Steel made an issue of preferred shares, and it is out of tax-paid surplus and the dividend you receive is tax paid. You do not have to pay any tax on it. When you exhaust the tax-paid surplus, you can elect to move over to the other class of shares which pays a dividend and on which you have to pay tax. That is why I was trying to see how you accommodated yourself to this.

Mr. Hunter: Mr. Chairman, I realize now that it is the convertibility between Class "A" common and Class "B" common which so many of the large companies are interested in. It depends on the size of the shareholdings. Some institutions prefer to have a Class "B" convertible rather than a Class "A" convertible, whereas an individual would rather have a Class "A". International Nickel and a lot of the larger companies have done this. The Investors Group have done it. In the case of United Grain Growers it has not been done because of the number of shares per farmer. There are no institutional purchasers. That is why the United Grain Growers have never gone into this inter-convertibility between two classes of common shares.

Senator Beaubien: Mr. Chairman, that tax-free dividend is limited to earnings of 1971 or before. So the grain growers could not pay out anything.

The Chairman: Up to January 1, 1972, the company could clear any surplus by paying 15 per cent. Up to then the distribution is free of tax. That is all I was trying to get at. It was Mr. Runciman's statement that it was tax deductible that provoked the remarks. Apparently he corrected that later to say that it was tax deductible in the hands of the shareholder.

Senator Connolly: If you have this tax-paid surplus upon which you have paid 15 per cent, when that is distributed to your shareholder, there is a further tax in his hands of the amount he receives less the 15 per cent. I put that as a question earlier and I thought the answer was yes.

Mr. Runciman: That is correct on these deferred dividends.

The Chairman: Less 15 per cent means 15 per cent comes out of the sum total of the surplus.

Senator Cook: Mr. Runciman is talking about deferred patronage dividends. That is different from the company surplus. So the answer to Senator Connolly's question is correct, but that does not have anything to do with the dividend fee.

Senator Connolly: I quite agree. Once the company has paid the 15 per cent, then, according to Mr. Runciman, if the balance of that fund is distributed to the shareholders, they have it as taxable income and they pay tax on it.

Senator Cook: Just the 15 per cent? That is their money.

Senator Beaubien: No.

Mr. Runciman: Mr. Chairman, the 15 per cent withholding tax is the tax I am referring to.

Senator Cook: And that is paid on the shareholders' money.

The Chairman: It is paid by the company.

Senator Cook: It is on the shareholders' money, not on the company's money.

Mr. Hunter: Mr. Chairman, the company pays corporate tax. When it pays a dividend it has a 15 per cent withholding tax on the dividend, and the recipient of the dividend is allowed this. That is what Mr. Wachal informs me.

Mr. Runciman: Mr. Chairman, when I spoke about tax paid earnings, I was thinking of the retained earnings of the company. I am talking now about share dividends. The share dividend is paid out of tax paid retained earnings.

Senator Cook: That is free of tax in the shareholder's hands.

Mr. Runciman: No it is not.

Senator Cook: If it is paid on tax paid surplus, then it is free in the shareholder's hands as the shareholder's dividends. When it is a patronage dividend, you say you pay 15 per cent withholding tax on patronage dividends, and then when he gets his patronage dividend he pays tax on it and gets a credit of the 15 per cent you have already paid on his behalf.

Mr. Runciman: That is right.

Senator Hays: Mr. Runciman, what is the total number of shares a person can hold?

Mr. Runciman: Up to the present time it has been not more than 2,500 Class "A" shares. Under this legislation it is now 5,000.

Senator Hays: You estimate that these shares are worth about \$11?

Mr. Runciman: The par value is \$20. They have been selling on the market for \$11 to \$12.50. The Class "B" shares have a par value of \$5 and the company redeems them at face value.

Senator Hays: They do not trade?

Mr. Runciman: No.

Senator Hays: After a person has his maximum amount, you then work it out on a patronage dividend basis?

Mr. Runciman: We have not really encountered the particular problem of hitting the ceiling of allowables since we went to the 2,500.

Senator Hays: At the little bit you pay it would take a long time. I admit that.

Senator Connolly: Mr. Chairman, I would just like to remind the committee that a former important colleague and member of this committee had a large part to play in the organization of this company. I refer to Senator Crerar. Perhaps Mr. Runciman would say something about his involvement in the history of this association.

Mr. Runciman: The most significant point I can make is that Senator Crerar was President of the Grain Grower's Grain Company, the forrunner of our present company, in 1907. He continued as President and General Manager until 1929. During that time he was also a cabinet minister here in Ottawa—and I am not quite sure what he did in his spare time, senator! But he certainly played a significant part in the early development of and the solid base laid for United Grain Growers.

Senator Connolly: Was Senator Lambert also associated with the company?

Mr. Runciman: No, Senator Lambert was associated with the Canadian Council of Agriculture, a policy organization which had its beginnings not quite as far back as 1906, but in that general period of time. Senator Lambert was associated with Senator Crerar in the formulation of farm policy back in those days.

Senator Connolly: They were also closely associated in the Senate.

Mr. Runciman: So I understand, yes.

Senator Buckwold: Mr. Chairman, I am sure members of this committee are impressed with the complexity and sophistication of the management problems surrounding the handling of the immense grain crop of western Canada. With Mr. Runciman as our witness today, we have before us a man who is considered one of the most distinguished representatives of the industry. I am happy to have this opportunity, as I am sure my colleagues are, to pay tribute to Mr. Runciman and what he has done for the agricultural industry of western Canada. There is no doubt that Mr. Runciman is considered probably the most responsible and able spokesman of the industry, and I am proud to have him as a witness today.

Hon. Senators: Hear, hear.

Senator Desruisseaux: Mr. Chairman, I have before me one of the annual reports of the United Grain Growers. It is dated July 31, 1975. I should like to compliment Mr. Runciman on the valuable information contained in this report. Can Mr. Runciman tell me whether the amendments contained in this bill were discussed with the membership at large?

Mr. Runciman: They were discussed at the annual meeting that was held on November 4 and 5, 1975, and received the unanimous approval of the delegate body at that time.

Senator Desruisseaux: Thank you. I see from the report that you have an authorized number of Class "A" shares of 550,000, and you have outstanding 325,000. With regard to the Class "B" shares you have 200,000, and outstanding 54,000. My question is, since the new section 4 contained in clause 1 of the bill calls for an increase to 1 million Class "A" shares, and 200,000 Class "B" shares, how are these going to be disposed of?

Mr. Runciman: By the process that we have been using in the past of issuing them in partial payment of patronage dividends. May I ask Mr. Wachal to elaborate on that?

Mr. Wachal: Mr. Chairman, you will notice that to that financial statement there is attached a note stating that on August 1, one day after the close of that financial statement, the company issued \$2 million worth of additional Class "A" shares, and that accounts for the greater part of those unauthorized shares.

Senator Beaubien: I am not clear with regard to the 15 per cent withholding tax. No company charges 15 per cent withholding tax when paying to its own shareholders, unless they are non-residents. If it is a surplus the company is putting aside, that refers to before 1971, and does not apply now.

The Chairman: No. Senator Cook, I think, cleared up that problem. If you have accumulated surplus in the period prior to January 1, 1972, then the company pays 15 per cent. It then becomes tax paid and can be distributed as such to shareholders. Senator Cook went into the question of when it is a patronage dividend. When the shareholder receives the patronage dividend, he gets credit for that 15 per cent by which the surplus has been reduced, and his portion has been reduced, and then he has to pay tax on what he gets.

Senator Cook: That is a customer dividend, rather than a shareholder dividend.

Senator Hays: I have none more question, Mr. Chairman.

Mr. Runciman, do you think it would be good business for the maltsters to contract their barley that they want to use, inasmuch as the producers can get a so much higher yield of other barleys today, rather than growing malt and hoping and guessing that it will get into the right channel.

Mr. Runciman: There are limitations within which they would have to operate, because the sole purchaser of

wheat, oats and barley in the designated area is the Canadian Wheat Board, and sales have to be made to the Canadian Wheat Board.

Senator Hays: Yes, I know; but laws are made to be changed.

Mr. Runciman: Provided the law could be changed, I think the maltsters would probably find they could get a satisfactory product, and be sure of quality and supply on a more regular basis, perhaps, than under the present system; but it would not go very far in spreading around the available malting market to as many producers, and this has been an element in the past.

Senator Buckwold: It would end up in the hands of a few highly specialized producers.

Mr. Runciman: Yes. It would end up in the hands of a few specialists.

Senator Hays: But we are doing it with oil seed, and all that sort of thing.

Mr. Runciman: The danger that I would see in that situation, apart from anything else, would be that freakish weather conditions could strike a major producing area where you had a concentration of these specialists, and you might end up in one year with an absolute shortage of malting barley. It is a great protection to the maltsters that malting barley is produced right across the prairie provinces, and if one area is hit—let us say the Red Deer area in Alberta—the chances are that some other good barley area escapes, and as a result there is a good supply on that basis.

I do think, however, that in the interests of equity among the producers there is also a strong case to be made for the idea of allocating that available market, which is relatively small, as we discussed before, to as many producers as possible, provided the maltsters get the quality, and I think would be the generally accepted idea. The maltster could go for the other idea because, as I say, he would have specialists producing specifically for him, and he would have greater control of quantity and quality and variety, and that type of thing.

Senator Hays: So you do not agree with it.

Mr. Runciman: I do not think it would be a politically acceptable procedure, if I may use that word.

Senator Laird: Would you like this annual report of the company filed?

The Chairman: Yes. It should be filed. Are you ready for the question?

Senator Cook: I move that the bill be reported without amendment.

The Chairman: Those in favour? Against, if any? Carried.

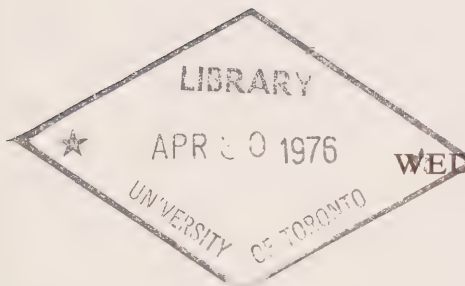
The committee adjourned.



FIRST SESSION—THIRTIETH PARLIAMENT
1974-76

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
BANKING, TRADE AND
COMMERCE

The Honourable **SALTER A. HAYDEN**, *Chairman*



Issue No. 82

WEDNESDAY, APRIL 7, 1976

Sixth Proceedings on:
"Canadian Textile Problems"

REPORT OF THE COMMITTEE

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Austin	Lafond
Barrow	Laird
Beaubien	Lang
Buckwold	Macnaughton
Connolly	Manning
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
*Flynn	Smith
Haig	(Colchester)
Hayden	Sullivan
Hays	Walker—(20)

Ex officio members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, May 27, 1975:

Pursuant to the Order of the Day, the Senate resumed the debate on the inquiry of the Honourable Senator Desruisseaux calling the attention of the Senate to Canadian textile problems.

After debate,

The Honourable Senator Asselin, P.C., moved seconded by the Honourable Senator Choquette, that the subject-matter of the inquiry be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, April 7, 1976

(106)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade & Commerce met this day at 9:30 a.m. *in camera*.

SUBJECT: "Canadian Textile Problems."

Present: The Honourable Senators Hayden (*Chairman*), Beaubien, Buckwold, Connolly (*Ottawa West*), Cook, Desruisseaux, Flynn, Lafond, Laird, Macnaughton and Sullivan. (11)

In Attendance: Messrs. C. Albert Poissant and Richard M. Freeborough, Consultants to the Committee.

The Chairman presented to the Committee a draft of its First Report with respect to the above subject. The Committee then proceeded to the discussion of the Report and following certain revisions made thereto, adjourned at 11:10 a.m. until 2:30 p.m. this day.

2:30 p.m. (*in camera*)

(107)

At 2:30 p.m. the Committee resumed consideration of the above subject.

Present: The Honourable Senators Hayden (*Chairman*), Austin, Beaubien, Connolly (*Ottawa West*), Cook, Desruisseaux, Flynn, Lafond, Laird and Macnaughton. (10)

In Attendance: Messrs. C. Albert Poissant and Richard M. Freeborough, Consultants to the Committee.

The Committee then proceeded to discuss revisions to the Draft Report studied earlier this day and it was *agreed* that the Chairman table the Report in the Senate on Thursday, April 8, 1976.

At 3:50 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

Report of the Committee

Wednesday, April 7, 1976.

On May 27, 1975, the following order of reference was made by the Senate:

"Pursuant to the Order of the Day, the Senate resumed the debate on the inquiry of the Honourable Senator Desruisseaux calling the attention of the Senate to Canadian Textile Problems.

After debate,

The Honourable Senator Asselin, P.C., moved seconded by the Honourable Senator Choquette, that the subject-matter of the inquiry be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative".

Pursuant to the above order of reference, your committee now presents its first report as follows:

The committee is of the opinion that immediate action can be taken by the government to alleviate the present malaise in the textile industry and, for this reason, is proceeding by issuing a first report on measures that can be instituted immediately pending a more detailed study which should bring about long-range solutions to the problem.

This report constitutes the result of the committee's examination and consideration of the written and verbal representations from the representatives of the textile industry, labour and management, and it takes into account the essence of the speeches made in the Senate on this subject.

Not all interested parties have appeared before the committee as yet, though all have been invited to do so. The presence of the Minister of Industry, Trade and Commerce before your committee has now been assured for April 28, and further, representatives of the Canadian Textile Importers Association have chosen to appear before the committee late in April.

This first report is based on the committee's interim study of the present textile problems after consideration of the evidence submitted as of this date to the committee. A further report may follow dealing with the long-range problems that may arise out of the evidence developed in subsequent hearings at which the minister and the Canadian Textile Importers Association are to be heard.

On May 14, 1970, the Honourable Jean-Luc Pepin, the incumbent Minister of Industry, Trade and Commerce, made known the Canadian Textile Policy in a document tabled in the House of Commons. On this occasion the minister made a brief statement of the highlights of the government's policy as contained in this document.

The minister's commentary included the reasons for the review by his department of the then present state of the textile industry in Canada and the world textile situation and the factors considered in establishment of the new

policy. As reported in the *Commons Debates* of May 14, 1970, on page 6952, he said:

"In the first place, the restrictions by other industrialized countries lead to increased pressures from low-cost competition on the relatively open Canadian market."

and

"In the second place, other countries have severely limited the access of Canadian textile and clothing exports, and the attainment of full competitive potential in Canada has been limited by the slow progress in the liberalization of world trade in textiles."

The minister went on to say that two extreme policies, an open door policy and one of global containment had been considered and rejected.

The policy adopted was intended to provide a framework within which the industry could plan, invest and develop with more confidence. Its purpose was to create conditions in which the industry would continue to move progressively toward viable lines of production.

The minister stated that:

"... the government will be prepared, in cases of serious injury or threat of injury from low-cost imports, to accord special protection—unilaterally when necessary—in order to facilitate adjustment to or strengthening of the more viable lines of production."

Emphasis was placed on the industry planning to phase out the least competitive lines and concentrate on those with the highest competitive potential.

The committee's examination of the textile problem has exposed a most deplorable situation in the textile and clothing industries (hereafter referred to simply as the textile industry). At the present time the domestic industry is producing approximately 46% of the textile products consumed in Canada with the balance being imported. This situation has developed over a number of years, as shown by the following:

CANADIAN TEXTILE CONSUMPTION						
(million pounds of yarn equivalent weight)						
Year	Production	Exports	Imports	Total	Percentage	
				Apparent Consumption	Canadian	Import
1964	409	34	214	589	64	36
1969	455	40	339	754	55	45
1973	495	41	579	1033	44	56
1974	542	52	602	1092	45	55
1975	490	30	544	1004	46	54

It can be seen that import penetration into Canada has increased and is significantly higher than the U.S.A. (about 12%), the Common Market (about 20%) or Japan (about 10%). It should be observed that the import penetration has been accentuated even after the adoption of the textile policy in 1970.

The cause of this situation appears to be an unwillingness by the government to implement the textile policy in accordance with the aims of that policy, and in fact to promote almost an open-door policy. Further, restraints are imposed long after complaints are made by the industry. The restraint agreements are of a one-year duration and are not adequately policed. Furthermore, the items subject to restraint in Canada represent only 6 per cent of the total imports as compared to 70 per cent in the United States. At the time the textile policy was announced, restraints in Canada applied to 15 per cent of textile imports.

One of the major effects of the increase in imports has been and continues to be the reduction by domestic industry of its productive capacity. Plants have been closed and the labour force laid off. This has had a particularly severe effect due to the nature of the industry whereby in addition to a few major producers, there are many small companies situated in relatively small towns and cities in Quebec and Ontario, and the closing or reduction of such a company affects the economy of the whole town. The textile industry employs between 180,000 and 200,000 workers and in 1973 contributed 6.3 per cent of the value of Canadian manufacturing. The textile industry as a whole employs some 20 per cent of all manufacturing workers in Quebec, and it is also of primary importance in Ontario. It was submitted to the committee that 25,000 textile workers has lost their jobs in the past year and that unemployment among textile workers was 18 per cent in the second quarter of 1975 when the average seasonally adjusted unemployment rate for all Canadian workers was 7.2 per cent. These few statistics amply illustrate the importance of the textile industry in the Canadian economy.

It appears that if proper protection from imports were provided the domestic industry would have or would very quickly develop the capacity to satisfy a substantially larger proportion of Canadian requirements more in line with the U.S. situation where domestic industry produces approximately 88 per cent of total consumption. The industry has already been streamlined and at present operates at a high level of technology and efficiency. To be viable with its present capacity immediate steps must be taken to provide the industry with at least 65 per cent of the domestic market. Due to inadequate import barriers the industry's share is only 46 per cent of the domestic market. However, this 65 per cent could be significantly increased and Canadian consumers would appear to still have adequate access to low cost textile products available from abroad.

In his speech in the House of Commons in May 1970, referred to earlier, the Minister of Industry, Trade and Commerce emphasized the following by reading directly from the document:

"Low cost measures would, wherever possible, be applied as at present by means of voluntary restraint agreements. However, in the case of undue delay or

when the problem does not lend itself to a negotiated solution, unilateral measures such as global import quotas might be applied... it is proposed that the Export and Import Permits Act be amended to permit unilateral imposition of import licensing quotas in cases of serious injury or the threat of injuries."

It is obvious from the evidence presented that implementation of the policy has not met the intent set forth when announced, that not all available protective measures have been brought to bear on the problem, and those used have been ineffective. For instance, long delays are encountered between the time and injury is reported and a restraint agreement is negotiated, and recommendations made by the Textile and Clothing Board are often altered and diluted.

It would seem that consideration should now be given to effect an amendment to Canadian textile policy to assure some reasonable percentage of the Canadian market to the domestic industry and its labour force. In the meantime there are a number of measures and procedures available which could be used immediately to alleviate the current textile problems and thereby improve the industry labour situation, as follows:

- 1) Under section 7 and subsection 8(2) of the Customs Tariff Act a surtax can be applied to imported products in order to prevent imports at disruptive prices. Section 7 was used in June 1970 on the importation of woven shirts.

- 2) The Textile and Clothing Board would accelerate their inquiries as much as possible by whatever means available, including consideration of as many products as practicable in the course of each inquiry.

- 3) The procedures by which recommendations of the Textile and Clothing Board are implemented could be accelerated and prompt actions enforced. There should be a time limitation within which action on the board's recommendations shall be taken by the minister.

- 4) The Minister of Industry, Trade and Commerce could institute a vigorous drive to negotiate as many long-term bilateral restraint agreements as possible. Such agreements should cover a broad range of products in order to afford maximum protection.

- 5) Immediate monitoring of restraint agreements currently in force. A significant step in achieving this objective would be the inclusion of all products covered by these agreements on the Import Control List thereby requiring permits for their importation.

- 6) Amendment could be made to the Export and Import Permits Act to allow the placing on the Import Control List of textile products subject neither to restraint agreements nor to a Textile and Clothing Board inquiry.

Respectfully submitted,

Salter A. Hayden,
Chairman.

Published under authority of the Senate by the Queen's Printer for Canada

Available from Printing and Publishing, Supply and Services Canada, Ottawa, Canada K1A 0S9



FIRST SESSION—THIRTIETH PARLIAMENT
1974-76

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
**BANKING, TRADE AND
COMMERCE**

The Honourable SALTER A. HAYDEN, *Chairman*

Issue No. 83

WEDNESDAY, APRIL 28, 1976

Seventh Proceedings on:
"Canadian Textile Problems"

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Austin	Lafond
Barrow	Laird
Beaubien	Lang
Buckwold	Macnaughton
Connolly	Manning
(<i>Ottawa West</i>)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
*Flynn	Smith
Haig	(<i>Colchester</i>)
Hayden	Sullivan
Hays	Walker—(20)

**Ex officio* members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, May 27, 1975:

Pursuant to the Order of the Day, the Senate resumed the debate on the inquiry of the Honourable Senator Desruisseaux calling the attention of the Senate to Canadian textile problems.

After debate,

The Honourable Senator Asselin, P.C., moved, seconded by the Honourable Senator Choquette, that the subject-matter of the inquiry be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, April 28, 1976

(108)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m.

SUBJECT: "*Canadian Textile Problems*".

Present: The Honourable Senators Hayden (*Chairman*), Beaubien, Buckwold, Connolly, (*Ottawa West*), Cook, Desruisseaux, Flynn, Lafond, Laird, Molson and Smith (*Colchester*). (11)

Present, not of the Committee: The Honourable Senator Bell (1).

In Attendance: Messrs. C. Albert Poissant and Richard Freeborough, Consultants to the Committee.

WITNESSES:

Department of Industry, Trade and Commerce:

The Hon. D. C. Jamieson, P.C., Minister;

Mr. R. E. Latimer, Assistant Deputy Minister, International Trade Relations; and

Mr. A. M. Guérin, Assistant Deputy Minister, Industry Development.

The Committee, following a statement by the Minister, then proceeded to a further discussion of the above subject.

At 12:00 noon, the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, April 28, 1976

The Standing Senate Committee on Banking, Trade and Commerce met this day at 9.30 a.m. to give consideration to Canadian textile problems.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, as you know, this meeting was arranged for this morning in order to hear the Minister of Industry, Trade and Commerce. We have present the minister himself, the Honourable D. C. Jamieson, and with him are Mr. A. M. Guerin, Assistant Deputy Minister, Industrial Development, and Mr. R. E. Latimer, Assistant Deputy Minister, International Trade Relations.

The order in which we will proceed is that the minister will make an opening statement, then the questions may flow, as the minister puts it, as fast as you want to put the questions, assuming that the answers are not embarrassing, of course. On that basis we will proceed. Mr. Minister, you have the floor.

The Honourable D. C. Jamieson, Minister of Industry, Trade and Commerce: Thank you very much, Mr. Chairman.

Honourable senators, I do not propose to make lengthy opening statement this morning with a lot of detail and statistics. In my years around here I have discovered that these hearings tend to go much better when you have an opportunity to ask those things which are of interest to you, rather than my taking a great deal of time with matters that may be extraneous to your concerns. There is also the fact, of course, that in recent days I have arranged to provide members of the committee with certain background information and material, which constitutes a summary of some of the more important developments within the textile industry in recent years.

I am not sure, Mr. Chairman, what the procedures are on the Senate side, whether or not you have a motion to include what I have provided in your *Minutes of Proceedings*. I think there has been some wish expressed that that be done. However, perhaps I can leave it to your good judgment as to the appropriate time it should be done, and what material you wish to have appended to the minutes.

The Chairman: We have received the material to which you are referring. A copy of it is in the hands of each member of the committee. Knowing their industry, I am sure they have read it—maybe not all the statistics but the essential portions of it. Whether we will include it in our *Hansard* of today is a decision we still have to make, because if we include it the printing costs are assessed against this committee, and then for our operations it shows a tremendous cost. We discovered that when we

were studying the tax bill, when we had hundreds of briefs as thick as your fist.

Senator Laird: And we would have to clear it with the chairman of the Standing Committee on Internal Economy, Budgets and Administration!

The Chairman: That is right. However, I am sure you can talk to yourself about that!

Hon. Mr. Jamieson: I merely mention it because some senators had indicated that it would be useful. I did not quite know what the procedures were in Senate committees.

The Chairman: I have read it, and it is a useful reference source.

Hon. Mr. Jamieson: In any event, it is, I trust, reasonably comprehensive. I might say, by the way, that while it was made available to members of the committee, it is also a public document in the sense that if anybody else wishes to have copies we will be very happy to provide them.

Essentially, we have been following very closely the hearings of this committee and noted your interim report with a considerable degree of interest. We also have had our own representations from time to time over these past years and, more particularly, in recent months from various interested groups—that is, those in the textile industry, or those who in one way or another have some kind of peripheral interest or semi-direct interest in the industry.

The program has been in effect for approximately five years, give or take a few months—that is, the so-called textile policy. I have noted comments that it is not, in the opinion of some at least, being implemented as thoroughly or as effectively as they would wish. There is a measure of truth in that statement, I think, although, as we discuss it this morning, I believe we can indicate that probably the criticisms or concerns about implementation are not as general as some of the comments might suggest.

However, having said that, let me also go on to say that having met with the textile industry recently I have made arrangements for the establishment of an *ad hoc* committee, which I suppose is the most appropriate name for it, and the objectives of that committee—which I will be glad to read to honourable senators—are really to see what can be done about the direct submissions that have been made, to determine how things may be brought to the point where they can work more efficiently, more effectively and with greater speed, and also to get the views of those provinces which are most directly interested.

It might be useful, at this point, if I read for committee members the terms of reference. This is the first occasion on which these have been disclosed in public.

Terms of Reference

Minister's Ad Hoc Textile and Clothing Advisory Committee

In the light of representations that have been received to the effect that:

(a) the Canadian market for textiles and clothing continues to be severely disrupted by imports,

(b) there is a need for improvement in the administration of the import control elements of the Textile Policy, and,

(c) the currently employed "selective" approach to special measures of protection against "low-cost" imports is ineffective,

it has been decided to form an ad hoc committee composed of three senior executives from the Canadian primary textile industry, three from the Canadian apparel industry, one representative from each of the Provinces of Manitoba, Ontario and Quebec, the Assistant Deputy Minister, Industry Development and the Assistant Deputy Minister, International Trade Relations of the Department of Industry, Trade and Commerce. The Committee will be chaired by the Senior Assistant Deputy Minister, Operations, of the Department of Industry, Trade and Commerce.

The mandate of this committee shall be to:

(1) review current conditions and prospects in the textile and clothing industries and in their market situation,

(2) review the administration of the Policy in relation to import competition,

(3) examine the appropriateness, given existing legislation and instruments, of implementing the Policy in terms of Articles 3 and 4 of the Arrangement Regarding International Trade in Textiles and Article XIX of the G.A.T.T.,

(4) report its findings and recommendations to the Minister of Industry, Trade and Commerce not later than June 30, 1976.

In other words, I do not want this to drag on interminably, and I believe that if we give them a deadline of approximately two months it will be possible to complete the job in that time.

I understand the industry representatives have been nominated. I am not sure if I can read the writing here. This is your writing, would you mind reading the names, Mr. Guérin?

Mr. A. M. Guérin, Assistant Deputy Minister, Industry Development, Department of Industry, Trade and Commerce: From the primary industry: Mr. Perowne of Dominion Textiles; Mr. Newall of Dupont; Mr. Taran of Consolidated Textile. From the clothing industry: Mr. Cohen of the Freedman Company; Mr. Kaufman of the Silpit group in Winnipeg; and Mr. Wismer of Cluetts & Peabody.

Hon. Mr. Jamieson: I have personally discussed this with the provinces most directly concerned namely, Quebec, Ontario and Manitoba—and in particular I had discussions with Ontario this week, and they have indicated they will give their full support and put senior officials and senior people to work on this particular analysis.

Senator Connolly: When was that committee established, Mr. Minister?

Senator Cook: What is the date of that?

Hon. Mr. Jamieson: As of this moment, it is in effect. This is the first time that the terms of reference have been revealed.

It was established as a result of consultations I had with representatives of the textile industry approximately five or six weeks ago, maybe two months ago. There was general agreement at that point . . .

Senator Connolly: It was done since our report was made, I take it.

Hon. Mr. Jamieson: No, it was slightly prior to that that the discussions were undertaken.

Senator Connolly: But after we began this inquiry?

Hon. Mr. Jamieson: Indeed, yes.

Senator Cook: You felt encouraged, after you got our interim report, did you not?

Hon. Mr. Jamieson: There is no question, Senator Cook, that we always pay very close attention to anything that is done in the Senate.

I want to make one or two general comments. First of all, one of the problems I have discovered—and I hope you will appreciate I have only had about six months to acquaint myself with a tremendously complex subject—is that we tend to talk about "textiles" as if it were some kind of a single entity when in point of fact it is a very broad and all-embracing word. There is a tremendous variety of items and commodities which are generally lumped under the heading of "textiles". We have, as well, textiles as opposed to finished garments, although, again, there are many occasions when these tend to be treated as being all of the same piece and, indeed, there are differences there.

The second point which is interesting to one who is coming to it fresh is that while there is a tendency to put much of the emphasis on references to low cost imports, to the degree to which developing countries are affecting the textile industry in Canada, the statistics actually show that the vast majority still, in terms of both quantity and value, is coming from the United States. It is also coming from developed countries, but basically from the United States. Therefore, in examining this situation, I think you have to recognize that there is a different problem, in a sense, when one is talking about imports from developed countries, where perhaps trade and tariff policies may be quite different and attitudes may be quite different from underdeveloped countries. So, this is important.

I do not want to leave the impression that, in my judgment, the low cost imports are not part and parcel of the problem; they are, because the low cost imports do tend to have an effect on the total market to some extent. Also, there is undoubtedly a substantial increase from low cost countries, either in effect at the present time or contemplated.

One of the interesting things during my visit to South-east Asia—which is, perhaps in that region of the world, the centre of the textile industry—was to note the tremendous emphasis which, in terms of their industrial development policy, they are placing on textiles of various kinds. As members of the delegation—some of whom may be here—will know, I was at considerable pains to advise

these countries that in this country we did not feel that it was in their best interests to undertake substantial growth in that particular sector of their economy. It was not merely because they were inevitably going to encounter protectionist sentiment tariff attitudes in the developed world, but also because, in effect, if they over-expanded in these countries, in terms of textile production, they would be self-defeating in terms of one of them against the other.

One can see that happening and, in fact, it has happened to a very great extent in the move from Japan, which has ceased to have the same dominance in terms of textiles as it had a decade or so ago, and a move to still cheaper kinds of labour countries such as Hong Kong, and a move from Hong Kong then to Singapore and into Malaysia. In other words, it tends to be something which a country which is very underdeveloped looks to very quickly because it is labour intensive, comparatively inexpensive to enter into, in some respects at least, and it is something which unskilled labour can do with a relatively small amount of training.

I did make the point to the spokesmen for those countries that it was, in my judgment, quite important that they not put too heavy an emphasis on textile development unless in some very specialized forms.

Senator Connolly: Having said that, Mr. Minister, can you say what their attitude is? Do they in fact rely so heavily for their general economic development upon textile production and export that, if it does not move on, their economy will be crippled? Do you get that kind of impression?

Hon. Mr. Jamieson: I would have to make certain gradations in that view. It is correct, I think, that virtually all of the so-called ASEAN countries—that is, the five making up the association of Asian and Southeast Asian states—have a quite heavy reliance on textiles. Some, however, are considerably more dependent than others. I suppose one could say, as a sort of general observation, that the lower the level of the economy the greater the dependence tends to be.

One finds that in the more advanced countries, such as Singapore, for example, there has been a tremendous amount of diversity. They are still heavily into textiles, but they have developed, for instance, a new industrial town-site in which at the present time there are some 610 or 615 industries of various kinds. So that gives you some idea.

Countries like Malaysia and, indeed, to some extent the Philippines, still very heavily rely upon a very small base of product: palm oil, rubber in some instances, and textiles. So that it is correct to say that these countries would be harmed substantially if there were to be a worldwide and very heavily weighted boycott or restriction, or whatever word one wishes to use by way of description.

This leads me, of course, to another point which I wish to make, particularly since there has been so much emphasis placed on the so-called low-cost imports, and that is that what we must seek to do, it seems to me, is to achieve the objectives of the textile policy with whatever modifications appear to be necessary, while at the same time supporting in a general way our external objectives in terms of external policy, and also our general position with regard to international trade negotiations which currently are underway in Geneva in the present round of the so-called GATT or the multi-national trade negotiations. All of these have to be part of the picture. It is not simply a question of isolating a commodity or a group of commodi-

ties and saying, "This is what we propose to do about textiles." In this case one has to anticipate what the reaction is going to be internationally in terms of whatever actions we take within the country.

The Chairman: Mr. Minister, when you refer to Geneva, it occurs to me that the agreement which was made under the aegis of GATT, called the International Trade Arrangement, comes up for renewal, or there is the ending of it in the next year. As I understand the way these things proceed, negotiations leading to a renewal or some change or the abandonment of these international arrangements or agreements usually get underway about a year before. Now, when you referred to Geneva and GATT and meetings in Geneva on international trade, were you including the question related particularly to international trade arrangements?

Hon. Mr. Jamieson: You mean the International Textile Agreement, is that correct?

The Chairman: Yes.

Hon. Mr. Jamieson: I will ask Mr. Latimer to give you the specifics as to just where textiles fit in the so-called GATT rounds, but in a general way I can answer you by saying that the whole question of the new tariff agreements, whatever they are going to be, has been, of course, under negotiation in Geneva since last year. Some progress has been made, but there is a general feeling—I do not think I am revealing any confidences when I say, for instance, that Ambassador Dent of the United States indicated to me in Geneva in December that he saw little likelihood of any completion of that round until, optimistically, mid-1977. There will be movement on certain headings, certain categories, but it will be at least mid-1977, and there are those who are inclined to think it will be even later.

May I ask Mr. Latimer to tell us what the relationship of the International Textile Agreement to the GATT is at the present time?

The Chairman: Mr. Latimer, while you are doing that, will you develop the point as to the relationship, if any, between any references to GATT and the effect of GATT on any agreements in relation to GATT and the international textile arrangements that I referred to?

Mr. R. E. Latimer (Assistant Deputy Minister, International Trade Relations, Department of Industry, Trade and Commerce): I will try.

The Chairman: Is it true or is it a fact that the international textile arrangement does not concern itself with tariffs; it concerns itself with restraints internationally?

Mr. Latimer: Yes, that is right.

The Chairman: So we are getting away from the basic concept of GATT, which deals with tariffs.

Mr. Latimer: Well, . . .

The Chairman: That is a question!

Mr. Latimer: A little bit of history. The textile arrangement has evolved in a variety of ways over the years, recognizing that in some of its provisions, the GATT, quite apart from tariff provisions—there is an article 19 which applies in cases of imports causing or threatening to cause injury—did not lend itself in its normal structure to dealing with the problem of textiles because it was a worldwide problem with certain peculiarities. Therefore the

international textile arrangement which was worked out was designed to facilitate the orderly development of trade in textiles and at the same time avoid the market disruption effect of low-cost imports. Therefore it is part of the GATT in the sense that it is a waiver of the traditions from a provision of the GATT that would be more restrictive in taking action to deal with market disruption. The textiles, however, are not resolved in terms of a new round of trade negotiations. Now, on that question, in the Kennedy Round trade negotiations, which was the last major round of trade negotiations, most countries excluded textiles, as an exception, from their tariff negotiations. The discussion in the GATT about whether or not various sectors will or will not be included in the tariff negotiations has not been resolved, and it is yet to be discussed, so that the issue of whether textiles will be an exception again remains for debate.

Senator Cook: Could you tell us why they are an exception? Could you tell us why most countries have excepted them?

Mr. Latimer: Because of the sensitivities and the volatility of the trade in textiles, the issue of market disruption and the fact that many countries have since the war maintained a variety of import restrictions, there is a need, if we are going to be liberalizing trade in textiles, to be doing so on a global basis and not just by individual countries. So that textiles have to be looked at as a group. Countries generally were not prepared substantially to liberalize textiles, and therefore they became an exclusion from that point.

Hon. Mr. Jamieson: I might add, senator, that from the political side—that is, from the point of view of the discussions going on among those who must make policy decisions—while it is absolutely correct, as the senator has said and as Mr. Latimer has confirmed, that there is this distinction when, in the current round of Geneva talks, tariffs and the like are discussed, there is also of course, GATT, which says, “tariffs and trade”, and while certain things are on the table in the formal sense, there are a great many other issues with regard to non-tariff barriers, and things of this nature, which are either discussed formally or informally at the political level.

Senator Molson: Does that mean, Mr. Minister, that textiles have been under discussion during the last year, coincidentally with the trade discussions going on in Geneva? Are textiles actively being discussed?

Hon. Mr. Jamieson: Well, certainly I can put it this way, senator, that in my personal discussions with counterparts in other countries, informally, the whole future and the whole attitude that the world on a global basis is going to take with regard to textiles has been discussed informally. Whether there has been an item on the agenda to that effect, I cannot say. I do not believe there has.

Mr. Latimer: There has not. There has been, and will be, discussion about the so-called “escape clause provisions” that I was talking about. At the same time, there is the question of the future of the ITA, because it is coming to an end in about a year, and whether it will be extended. Will it be renegotiated? If it is not, and countries do not agree with it, then we are back to the normal provisions of the GATT, and that, again, gets back into the escape clause that I was referring to.

Senator Molson: That is what I was asking about. There is no plan on the table at the moment to discuss the ITA?

Hon. Jamieson: No. I think a sequence which could reasonably be expected to emerge would begin with the UNCTAD meetings opening on Monday in Nairobi. There are some one hundred countries, a lot of which are underdeveloped countries, that are going to be discussing the whole attitude of the developed world. There is no question in my mind that not only textiles, but rubber, tin, palm oil, and all of those things are going to be discussed, because the attitude tends to be that if we in the developed world are genuine in saying we want to help them in terms of international trade, then, in effect, nothing should be excluded from the discussions, whatever emerges.

Mr. Latimer: On the point that was raised a moment ago, the question of the ITA is bound to come up this fall, because if people were not to agree, for example, that it should be continued unchanged, there would have to be a renegotiation.

Senator Molson: Why does it have to be renegotiated?

Mr. Latimer: It would have to be renegotiated because it expires at the end of 1977. If it is renewed there is no problem. If it is going to be changed, we have to get started on it without delay.

Hon. Mr. Jamieson: Lest there be any sort of feeling that nothing will take its place, it is my judgment—and again I make the distinction between official and political judgment—that there will be some kind of replacement. I do not think there is the slightest doubt about that.

Senator Connolly: So that any negotiations with reference to possible bilateral agreements under ITA would not be fruitless if they were undertaken before the renewal of ITA?

Hon. Mr. Jamieson: No. I think that anything done now would anticipate some kind of on-going arrangement.

Senator Desruisseaux: Mr. Minister, has the United States been participating in these discussions that you mentioned as either being about to take place or having already taken place recently?

Hon. Mr. Jamieson: Yes, sir, very much so. I have to respond—I suppose the word should be “delicately” here. I might refer you to newspaper or other media reports indicating that there is little likelihood of much movement on the part of the United States or major matters of trade during the presidential election year. As I say, I only know what I read in the newspapers.

Senator Desruisseaux: All right. I will put it in another way. Is the textile policy that we have similar to that of the United States in respect to these arrangements that are going to be made?

Hon. Mr. Jamieson: I do not think I could forecast that, but at the moment there are very definite distinctions as you know and as your report reflected. There are those who feel that our position respecting the proper attitude and approach to textiles might be, or should be, more on all fours with that of the United States, which, in a word, is called a “global quota arrangement.” If senators wish, Mr. Chairman, I might ask Mr. Latimer to indicate for their benefit just what the distinctions are, and the rationale behind them.

Mr. Latimer: Well, as I understand it, the Americans began with a fairly comprehensive system of import con-

trols early on after the war. The Europeans maintained a whole range of balance-of-payments restrictions in the post-war period, and as they moved out of the era of balance-of-payment problems controls were retained on products that were considered to be sensitive. You therefore have a situation in which the United States has been restrictive in a rather comprehensive way, and the Europeans also, following on from their balance-of-payments restrictions of the early post-war period.

The result of this is that the Americans have tended to deal with textiles from that base, and they have had a rather comprehensive system of controls in terms of which they control everything, from the fibre to the fabric to the garments, with swings, or ceilings, on individual products, as part of their program. This is covered in Article 4 of the ITA. I do not regard that as an international trade agreement coverage; it just acknowledges that it exists, rather than agreeing with what the International Textile Agreement was about.

The Europeans have a rather more complicated system, because while the individual countries have had varieties of degrees of controls on textiles, as they have integrated into the European Economic Community, that exercise has been bogged down in complexities, because of the shift of responsibility with regard to commercial policy to the European Economic Community as such. You therefore have a hodge-podge of controls in Europe.

We, for our part, given the thrust that we have had, have approached the matter on an individual product problem basis. We have indicated, where individual cases arose, whether or not there was a problem of market disruption, and dealt with it that way. This would partly, I think, be a reflection of the nature of the Canadian market, of the nature of the Canadian industry and of the degree of self-sufficiency in Canada in terms of our requirements for textiles. We have always been a large importer of textiles and garments—more than some would like, and less than others would like, presumably; so we do not have the same self-sufficient structure. We have had more imports, inevitably, in view of the nature of the market and our capability of supplying our requirements. The Americans have been more self-sufficient, and therefore have been more comprehensive with regard to controls.

Senator Desruisseaux: Do you think we are not self-sufficient now in the textile industry? Is that what you are trying to say?

Mr. Latimer: The answer to that is that to the extent that the United States imports something like 3 per cent of its textile market supplies, whereas we, depending on whether you take figures based on weight or value, import substantially more than that, by definition—my definition—we are not self-sufficient in textiles. Whether we ought to be is another question, and, it seems to me, is a major question of policy.

Senator Desruisseaux: What is the Canadian position at this time with respect to renewal of the international trade arrangements?

Hon. Mr. Jamieson: I think it is as I outlined it earlier. I am satisfied that there will be some on-going mechanism. Whether it will have precisely its present form, or whether there will be changes or modifications in terms of what the various countries involved will agree to, I think it is too early to say, because the actual talks have not reached a point at which any judgment is possible in that regard; but

it is conceivable that there would be changes in the international agreement.

Senator Desruisseaux: As you know, Mr. Minister, I come from an area that is most concerned about the textile situation. We are worried about some of the statements that are being made about textiles—for instance, about the possible phasing out of that industry—that have been published in the newspapers a number of times. Now, what is the policy?

Hon. Mr. Jamieson: Here you are speaking domestically, and I can be more precise. There is no view anywhere in the government that the textile industry is dispensable. We have recognized—and I certainly recognize and have said so on many occasions—that it is an important industrial segment in Canada and it is our intention to do whatever is possible to give it a degree of viability. I have been impressed by the industry's argument that they need some security of tenure, some indicatin as to where the industry is going to go over a relatively long period of time so that appropriate planning can be undertaken and appropriate rationalization can be put in place. Therefore I am hoping that out of the committee that I mentioned, and also from other discussions, we will get advice and suggestions as to how these things can be achieved.

But having said that the textile industry is an integral part of industrial strategy, I should add that we recognized back in 1970, as did the industry itself, that some degree of rationalization and modernization had to be undertaken, and it was for this reason that the so-called Textile and Clothing Board has to be introduced. But, as I mentioned in my opening remarks, there have been problems in this connectin but I am persuaded that we are capable of resolving them. One of the problems is the length of time it has taken us in many instances to table the reports of the board. There are good reasons for this which I shall be happy to go into if I am asked about it, but I do not want to make this a monologue at the moment. I shall only add that I have made a commitment that the reports of that board should be published as quickly as possible after they are received.

There is also the question about recommendations of that board and how they are going to be implemented, and what response the government—in this particular case, my officials and myself—are going to make to them. I would like to get a better mechanism in that way so that we would have the ability to say, "Here is the report," and then be more specific more quickly as to the kind of response we are going to make to it. I am not suggesting for one moment that we can resolve all the problems. There is no question in my mind but that this issue of low-cost imports is going to be difficult in many areas related to the whole question of international trade, and particularly with regard to the sensitivities that arise as a result of the fact that these developing countries are so reliant on the kind of trade. If we are going to assist in this area, we have to find a way to protect the Canadian industry, and this is something that is fundamental to our policy, and at the same time not to be talking out of both sides of our mouth when it comes to saying that we wish to encourage developing countries.

Senator Laird: That is the very point I wanted to bring up, Mr. Chairman. Is it not a fact that in all likelihood potential relief to the textile industry may find itself in conflict with our policies towards underdeveloped countries?

Hon. Mr. Jamieson: There is no question that that is the case. In that connection I call your attention to the report of the House of Commons committee dealing with the subject matter of our relations with the developing world. That report was unanimous in that it was supported by all parties in the House of Commons, and it makes precisely this point, that we should be encouraging the underdeveloped countries—and, of course, there is a dichotomy there because that runs counter to protection of the Canadian industry and therefore makes the job much more difficult.

Senator Laird: Is there any practical way out of this problem?

Hon. Mr. Jamieson: Yes, in fact there is a number of ways. One I have already mentioned. By the way, while I mentioned textiles, this is equally true of a number of other products. You will be interested, for instance, to know that they are moving very much into auto parts in some of those countries. So, one of the things we are trying to do now is to counsel those countries, and particularly the industrial elements in those countries, as to what the market prospects are in the areas where we would like to take their products, and to let them know the kinds of things for which there are markets in Canada. We have come up with a rather imaginative idea, in my view, in the ministry, in that we are going to be in a position to take a number of retired trade commissioners—people who have vast experience in this field—and make them available to some of those countries that I have mentioned, to let them know what the market potential is in Canada so that they will not all be going in the same direction.

Senator Laird: That is a very practical approach.

Senator Buckwold: You speak about the sensitivity of Canada so far as underdeveloped nations are concerned, but would you say now, looking at the other side of the coin, that as of now we have probably the most generous import policies of any of the developed countries?

Hon. Mr. Jamieson: I would not be able to make that assessment myself. Mr. Latimer might be able to measure it more accurately. I should say that in many ways it is a very hard thing to measure.

Senator Buckwold: We have been told in committee hearings that Canada is really much more generous in allowing imports of textile products than other developed countries are, and I am wondering just how far that sensitivity has to go. Surely, Central and Western Europe and the United States, should be sensitive, and perhaps South America.

Mr. Latimer: Perhaps I could respond in a technical sense. The discussions that take place about whether we are the most open or whether we are not the most open usually begin with a discussion about participation in the markets. But the issue here may have less to do with that and more to do with problems of adjustment. Are we subjecting our industry to more shock from import competition than others are doing? I suppose in one way we would not say to the developing countries, "We are miserable fellows, and we are worse than others." I suspect we would rather turn around and say, "You have as good a share of the Canadian market as you have anywhere else." Now you are asking if it is better, and I would respond by saying that it is selective but the degree of penetration is greater, and our selective approach is regarded by many

in the Canadian textile industry as being too liberal because it should be more comprehensive.

Are we efficient in applying restraints promptly where there is a problem with import competition? There has been some criticism of our efficiency, but I think that is an administrative problem rather than any comment about policy. However, I cannot answer you directly, because I do not know precisely what you mean by your question.

Hon. Mr. Jamieson: I think there is one answer that can be given, and that is that the countries concerned certainly do not regard us, by any stretch of the imagination, as being generous. I think the other point which is important and which I think should be borne in mind is the one made at the outset, namely, that by far the largest percentage of our textile imports still come from the developed countries and from the United States. That is quite another problem. I am told that a year or so ago, when inventory problems arose as a result of the recession in the United States, there was a tendency in that country to move textiles, and additional merchandise of various kinds, into Canada. We must accept the fact that there is quite a difference in dealing with the United States compared to dealing with an underdeveloped country, but it seems to me that that is also a very big part of the problem.

Senator Molson: Mr. Minister, in dealing with Canadian policy in this regard, it sometimes seems to me as though our policy still has in focus the cotton age far more than the man-made fibre age; and here, perhaps, I am getting back to the developing countries too much again. However, in their case, for example where they are not the initial providers of natural fibres for their industry, is there any peculiar reason why we, with the technology and, very often, the initial supplies, should be encouraging those countries to ship in to us when they did not start with either the technology, the raw materials or any other components of the industry?

Hon. Mr. Jamieson: I suppose we can only answer that in a general fashion, senator—namely, that we also, of course, in Canada have made changes in terms of the calibre, quality and nature of our exports. However, in terms of the underdeveloped countries to which you refer, it is true that, for instance, they have gone into acrylic yarn and various synthetic fabrics to an increasing extent. This is simply because their earlier market for cottons or other natural fibres was disappearing. So they obviously made the conversion, just as we did, in terms of domestic market and export products.

I would make it clear that we are not encouraging the underdeveloped countries in this regard; quite the contrary. As I mentioned earlier, we endeavour to ensure that they will not get into an over-production situation which would result, it seems to me, in many more—perhaps "protectionist actions" is the wrong phrase—types of actions of a restrictive nature.

Senator Connolly: Mr. Chairman, I believe the minister is aware that we have heard a great deal of evidence throughout the winter with regard to the deleterious effects of sudden shifts of supplies from the underdeveloped countries of, perhaps, the cheaper textiles, the lower quality type of goods, which disrupt our markets. The witnesses we have heard, including Ms. Pestieau from the C.D. Howe Research Institute, have referred a great deal to the restraint agreements. In my opinion, these restraint agreements were originally not too well received. However, subsequently they have become part of the way

of life in the world-wide textile industry and the underdeveloped countries are accepting them. Much of the evidence we have heard indicates that if this type of agreement were negotiated by Canada it would help the Canadian industry very materially insofar as its problem arises from imports from the underdeveloped world without hurting the industry in those areas along the lines of what you said you have encouraged them to consider.

We have also heard evidence, including a quotation from a speech made by the Chancellor of the Exchequer in the United Kingdom—I am sorry to make a little speech about this, but I believe I must give some of the background—that countries in the European Community were actively negotiating agreements referred to by Ms. Pestieau and other witnesses as Article 4 agreements. These are the five-year agreements which can be renewed and which restrict voluntarily on the part of the exporting country the quantity of goods that can be shipped into Canada, but escalate that quantity over the years. Apparently this is being done in some of the countries of the Community. We have also been informed that the Americans do this and have many of these long-term agreements, while we do not, although we may have two at the moment.

We have been in the habit of negotiating the short-term agreement known as the Article 3 agreement, which we have been told applies for one year. When it expires and is not renewed it becomes a problem for the Canadian industry because there is a flood and the market is disrupted. We have also heard evidence that the Textile and Clothing Board does not really protect the industry against this type of sudden flood, because it is shutting the door after the horse has bolted. We have been urged to recommend that we enter into better, longer and more Article 4, long-term agreements, which we are not now getting.

I am sorry about the speech, but I believe that gives the background, Mr. Chairman, of this aspect.

The Chairman: May we have the question, please?

Hon. Mr. Jamieson: I think it is in there. First of all, I believe that there is real merit, and I am persuaded that the arguments with regard to the longer term agreements are certainly worth examining and that there is validity in the representations of the industry with regard to the "slow-off-the-mark" type of approach. That is why one of the terms of reference of the new committee to which we are referring, which will include, of course, all the interested parties, is to examine the appropriateness, given existing legislation and so forth, of implementing policy in terms of Articles 3 and 4 of the arrangement regarding international trade in textiles. In other words, we hear from our own officials and I think it is useful for them to apply themselves to this question, but we would also like to hear the point of view of the industry with respect to how they see this being done. We know that in a general way they are referring to global quota arrangements which the United States has. They say, incidentally and I think it is fair to say, that there are some questions being raised even there now as to whether that is precisely the arrangement that they wish to follow.

Senator Connolly: Mr. Chairman, the International Textile Agreement has been in existence for a long time. Why have we not, as a matter of policy, negotiated these Article 4 agreements on a much broader front?

Mr. Latimer: If I may be permitted, Mr. Chairman, there is a distinction. Under Article 4 a country can negotiate

whatever agreement another country is prepared to accept.

The Chairman: And for whatever period.

Mr. Latimer: If that country is prepared to accept it.

The Chairman: Yes.

Mr. Latimer: There is no obligation in the ITA requiring the other countries to accept it.

Senator Connolly: We understand that.

Mr. Latimer: It is only Article 3 that provides that if the other country does not agree unilateral action may be taken to deal with the situation. Therefore the agreement depends on the other country going along with it. Some of it depends on clout and so on.

Senator Cook: In the event that a developing country would not enter into an Article 4 agreement with the United States, what would happen?

Hon. Mr. Jamieson: Action may be taken under Article 3 by means of a unilateral decision, but then disruption and damage must be proven.

Senator Cook: I will go back for a moment. The United States and the European Community nations have agreements under Article 4.

Mr. Latimer: That is correct.

Senator Cook: You say that those agreements depend on their acceptance by the other countries.

Hon. Mr. Jamieson: That is right.

Senator Cook: What happens in the event the other countries do not accept the agreements?

Mr. Latimer: Then the agreements can be contravened.

Senator Cook: What agreements?

Mr. Latimer: I refer to Article 19, which provides that if increased imports cause serious injury action may be taken against the other country. Compensation may usually have to be offered and it must be justified and shown that the imports created damage. Under the ITA we have obtained an improvement in that situation insofar as the textile sector is concerned. That provides that it may be applied in a discriminatory manner, subject to certain criteria. Therefore, if any country does not go along, the other country may either make a case under Article 3 of the ITA, or endeavour to make a case under Article 19 of the GATT, if they wish to do so. Or, if they wish to ignore their international obligations, you know, countries never give up their sovereignty.

The Chairman: What you are really talking about is that if there is not a voluntary agreement under Article 4, there is then no agreement. There may be action unilaterally, by Canada, for instance . . .

Hon. Mr. Jamieson: Which would then have to be defended.

The Chairman: Yes. It would have to be in terms of what Article 3 says, and the conditions contained in that article; but, subject to that, you may act unilaterally. You do not talk about a unilateral agreement; you talk about acting unilaterally.

Mr. Latimer: Yes.

Senator Cook: I am trying to educate myself. Perhaps I am extremely stupid. Let us start from the beginning. A country such as Korea comes along to the United States—I am not sure who goes to whom—and there is no agreement made. The United States puts up certain conditions but there is no agreement made. Can Korea import what they like into the United States?

Hon. Mr. Jamieson: Assuming there was no agreement, which is what you said—we should come back to that in a moment—the United States would then act, I presume, in the normal course under Article 3, or it would be open to them to move—which is to prove injury or damage. What are the legal words? I have forgotten them.

Mr. Latimer: Or threaten disruption.

Hon. Mr. Jamieson: Or threaten disruption. That will then have to be judged in the tribunal, or whatever it is. I presume it is a panel of GATT.

Senator Cook: But there is no agreement. Does that mean that as many Korean goods can go into the United States as they want to send in?

Hon. Mr. Jamieson: I do not think so. Presumably there would be some kind of embargo—or conceivably there could be—during the period in which the appeal was being taken.

Senator Connolly: In other words, they would apply import controls?

Hon. Mr. Jamieson: That is right.

Senator Connolly: Do we ever apply import controls?

The Chairman: We do have import control list.

Senator Cook: Let us go back to the original situation. I am talking about Article 4, which the U.S.A. and the European Economic Community use. So far as I know, we are the only ones who use Article 3. Let us get back to Article 4, which means a bilateral agreement. They cannot make an agreement, I do not care who they are.

Senator Flynn: Do they try to make an agreement? Is that your point, Senator Cook?

Senator Cook: No. I do not care which way you put it. We have the United States market. Korea, China, Russia—you name it—someone wants to import or export goods into the U.S.A. Can they do so? Can they go ahead and do it?

Hon. Mr. Jamieson: You mean, without any agreement at all?

Senator Cook: Yes.

Hon. Mr. Jamieson: You are asking a very broad question. I do not know of any particular commodity . . .

Senator Cook: I suggest to you that they cannot.

Hon. Mr. Jamieson: I would assume—in the first place, it is very hypothetical . . .

Senator Cook: But . . .

Hon. Mr. Jamieson: Just one moment. It is very unlikely—talking about the European Economic Community and

the United States, those two countries—that a country—you mentioned Korea—would not make an Article 4 agreement with the United States, because there would be far too much inplay in a wide variety of ways for them to say to the United States, "No way!" because the United States has a tremendous amount of—to use a word which Mr. Latimer used—clout in that regard. So does the European Economic Community with 300 million potential customers.

Senator Cook: The witness said, or implied, that it was up to the other country—an emerging country—to agree. I am saying they have no choice. The United States would say "Okay, we will allocate so much of the imports to our market and the rest among the other countries"; and if Korea does not like it, what can they do about it?

Hon. Mr. Jamieson: In the first place, you would have to say "very little," because, as I said, the United States is not just talking in terms of saying "Look, we are going to fit you in in terms of whatever the quota is going to be on textiles." The relationship between those countries, and the influence of the United States in those countries, is such that it is almost inevitable that they are going to reach agreement.

Senator Cook: All right. Although I do not agree, let us assume that it is so. What is the difference between the United States and ourselves in the same situation? What clout do they have against us?

Hon. Mr. Jamieson: It is not a question of what clout they have against us: it is a question of what clout we have against them. We are not nearly as capable, in trade terms, of working out these kinds of voluntary agreements as is a country like the United States, with its size and market, or the European Economic Community.

Senator Cook: In other words, these agreements are forced upon us. We have no manoeuvrability. We cannot go back and use Article 4, the same as do the others. We have to rely on Article 3.

Hon. Mr. Jamieson: No.

The Chairman: Senator Cook, on the evidence that we have, you cannot say that these Article 4 agreements are forced on Canada because of its position being unlike that of the United States. I think it is still the result of bargaining. Remember, if the developing countries cannot get into the market on the basis of two million pounds of a certain product, they will settle for one million and a half if they can make a deal there.

Senator Cook: I am not saying it is a wrong policy. I am saying it is the result of deliberate government policy that we decide to go on Article 3 rather than Article 4.

Hon. Mr. Jamieson: No.

Senator Cook: What is it, then?

Hon. Mr. Jamieson: With the greatest respect, senator, I am not clear what the question is that you are trying to ask me. I guess it is a question of our being just a couple of "Newfies."

Senator Cook: That is why it gets hot. In Newfoundland they say that we never discuss anything; we always argue.

The Chairman: I did not think that problem would arise between two "Newfies."

Senator Cook: Let us get back to the beginning. I apologize for possibly wasting the time of the committee. We were told in this brief from the C.D. Howe Research Institute that, unlike Canada, the United States and the European Economic Community refer to Article 4 rather than Article 3. The question is simply this: Why are we different from the United States and the European Economic Community—there may be a very good reason—and elect to go along the route of Article 3 rather than Article 4?

Hon. Mr. Jamieson: I will let Mr. Latimer explain, in the technical sense, why in many instances we go after Article 3. We do not exclude Article 4; we have agreements under Article 4.

Senator Cook: We have one with Hungary.

Hon. Mr. Jamieson: It is more than that now.

Senator Connolly: Two, I think.

Mr. Latimer: Individual products—not comprehensive. There is a distinction.

Senator Cook: Then it must be recent.

Mr. Latimer: We have procedures that in some respects are built into the textile policy which says that where there is a problem of market disruption, or there may be, there is a reference to the Clothing and Textile Board. The Clothing and Textile Board makes a recommendation, and that recommendation is whether or not there is a market disruption or threat of market disruption; and in response you take action in relation to those cases brought before the board. That is what the provisions of the Export and Import Permits Act allow you to do in internal terms.

Senator Desruisseaux: How long does that procedure take?

Mr. Latimer: I have been reading the testimony on that. That is one element. There is some part of our textile system which leads to an Article 3 kind of approach, but it does not preclude other kinds of approach. It has to do with what the international textile agreement allows or does not allow. I was not really saying what can you negotiate and what can't you negotiate. It is what the agreement allows for.

Senator Cook: If we so desire, can we negotiate agreements under Article 4?

Hon. Mr. Jamieson: Yes.

Senator Cook: We have in fact negotiated agreements under Article 3.

Mr. Latimer: Yes, and some under Article 4.

Senator Cook: But the great majority under Article 3?

Mr. Latimer: Yes.

Senator Cook: That was government policy.

Mr. Latimer: Government policy?

Senator Connolly: What else could it be?

Mr. Latimer: I had better be careful, because the minister has indicated the terms of reference of an *ad hoc* committee as being that it is to examine the scope and

possibility of improving the administration in the context of precisely what you have raised.

Senator Connolly: In respect of Article 4 agreements?

Hon. Mr. Jamieson: That is right.

Senator Connolly: This agreement has been in existence for quite some time. Are we only now discovering that perhaps Article 4 agreements are the direction in which we should be moving?

The Chairman: No, Senator Connolly. As you will recall, we had some evidence before our committee with respect to the types of agreements presently outstanding. There are four such agreements under Article 4 of the International Trade in Textiles Arrangement, two under Article 3 and three under Article 8. Article 8 is the article that deals with agreements with non-members, which would be countries that have not signed the Arrangement. The countries with whom we have Article 8 agreements are Taiwan, Czechoslovakia, and the People's Republic of China. The countries with whom we have Article 3 agreements are Hong Kong and the Republic of Korea; and those with whom we have Article 4 agreements are the Philippines, Poland and India.

We have not been favouring one particular approach, as evidenced by the various types of agreement outstanding. I think our first report suggested that there should be concentration, to the extent possible, under Article 4.

As a matter of government policy, is there an order to that effect that is followed, or what do you strive to achieve in negotiations with other countries by way of reaching some limitation on the matter of the quantities of imports? Do you start with Article 4 and then, if you encounter problems in achieving voluntary agreement, jump to Article 3? You have no choice, of course, in cases where the country with whom negotiations are taking place is not a member or a signatory of the International Trade in Textiles Arrangement. Such negotiations must proceed towards an Article 8 agreement.

Mr. Latimer: That is right.

The Chairman: Dealing with the question of whether you strive for an Article 3 or an Article 4 agreement, do you start negotiating towards an Article 4 agreement?

Mr. Latimer: I do want to draw a distinction between these two types of agreements. I have read the testimony very carefully and I note that when people are talking about Article 4 agreements, they are thinking, at the same time, in terms of comprehensive agreements covering a great many products rather than individual products. Once we have a government decision with respect to a recommendation of the Textile and Clothing Board and it calls for restraint, if the conditions are such as to make it possible for us to make a full case under Article 3, meeting all the terms and conditions of Article 3, we go for Article 3. If there are considerations that will make negotiation of an Article 3 agreement difficult because of the conditions laid down in Article 3, we then go for an Article 4 agreement. We tend to go for Article 3 agreements, if a case can be made. We go for Article 4 agreements if there is a need for action but a case cannot be made within the meaning of Article 3.

The Chairman: What you are saying, in effect, is that when you go under Article 4, those would be cases where

there is no proof of damage or injury, or threat of damage or injury.

Mr. Latimer: No, I said within the meaning of Article 3 of the ITA, not in terms of our own criteria.

The Chairman: What I would like to know, then, is what attention, if any, you pay to reports of the Textile and Clothing Board which state there has been damage or injury?

Mr. Latimer: That is precisely what I said. If there is a decision, then the question of whether we go to Article 3 or Article 4 is based on the determination as to the best route for negotiation.

Hon. Mr. Jamieson: Once the finding of the board is in.

The Chairman: But if the finding of the board is that there has been damage or injury, or threat of damage or injury, do you then proceed on the basis of an Article 3 agreement, or do you still try to obtain a voluntary agreement under Article 4?

Mr. Latimer: Article 3 is also voluntary. The procedure under Article 3 would be to make a request for restraint of shipments to a certain amount, laying out the ground rules and the reasons therefor. If the request is denied, we are then free under Article 3 to take action against that country. Under Article 4, we do not have that right under the ITA.

Senator Connolly: What is the difference between Article 3 and article 4 with respect to the term of agreements? How long does an Article 3 agreement run?

Mr. Latimer: That is not provided for in either one of them. That is a matter of negotiation between the parties.

Senator Connolly: Can you negotiate a long-term Article 3 agreement?

Mr. Latimer: Technically, there is no reason why we could not.

Senator Connolly: Have you ever done so?

Mr. Latimer: We have some running three years, I believe.

Senator Connolly: How long are Article 4 agreements?

The Chairman: It seems to me you are getting into a contradictory position. A little while ago, you agreed with me that Article 3 was a unilateral arrangement.

Mr. Latimer: No.

Hon. Mr. Jamieson: It was voluntary.

Mr. Latimer: If I said that, I inadvertently misled you.

Hon. Mr. Jamieson: I think the word he used was "voluntary"; that an Article 3 agreement is voluntary.

Senator Connolly: No, Article 4 is voluntary; Article 3 is unilateral.

Hon. Mr. Jamieson: I am merely trying to quote back to him what he said.

The Chairman: We now have two different statements from you in the course of five minutes.

Mr. Latimer: Let's clarify them. Under Article 4, if two countries get together and agree on a restraint arrange-

ment and they so advise the textile surveillance body, then the textile surveillance body will accept it. There would be no challenge internationally.

The Chairman: If I may interject, you use the term "restraint agreement." Even an agreement under Article 4 is, or may be, a restraint agreement, voluntarily entered into.

Hon. Mr. Jamieson: That is basically what it is. It simply says that one country says to the other, "Okay, we understand your position and we will only send so much." That is what it is; it is an acceptance of restraint.

The Chairman: What you are saying is that the difference between an Article 3 agreement and an Article 4 agreement . . .

Mr. Latimer: Before you take it any further, if the other country does not agree, there is then nothing you can do about it under Article 4. If you are dealing with an Article 3 agreement and, on request, the other country refuses to enter into a restraint arrangement, we would then have the right to take action against the imports of that country. That is the difference. We do not have that right under Article 4.

The Chairman: Article 3 allows for unilateral action.

Mr. Latimer: If we cannot get agreement by voluntary restraint.

The Chairman: If we cannot get agreement under what?

Mr. Latimer: There are also procedures under Article 3 for negotiating voluntary restraint.

The Chairman: But if you cannot get voluntary restraint, what you are saying is that you can proceed under Article 3 or Article 4?

Mr. Latimer: No, we could not proceed under Article 4; we would have to proceed under Article 3.

Hon. Mr. Jamieson: I do not know whether I can make the point, but as I understand it—and I am not an expert in this area—Article 3 provides the second string to the bow. If after negotiation there is no agreement, we then have the option to take unilateral action.

Senator Connolly: Mr. Minister, does your option at that point include the right to impose import controls?

Hon. Mr. Jamieson: Yes.

Senator Connolly: That is the clout you have. In other words, the import control option, which is our customs law, gives you the right to deny to that exporting country the whole or a segment of the Canadian textiles market.

Hon. Mr. Jamieson: Always subject, of course, to the fact that if we are moving against international agreements, and the like, that country would have a grievance.

Senator Connolly: Even in the face of the International Textile Trade Arrangement?

Hon. Mr. Jamieson: I am not sure I understand that.

Senator Connolly: Well, the International Textile Trade Arrangement allows the entering into of these restraint agreements. If you try Article 4 and it doesn't work and you then try to negotiate an Article 3 agreement, if no agreement is reached you can then impose import con-

trols. In those circumstances, would Canada be subject to a complaint or grievance under GATT or some other international agreement?

Mr. Latimer: If the conditions and circumstances that warrant you asking the other man to put on a restraint are consistent with the provisions of Article 3—i.e., you have demonstrated a threat or a cause of market disruption as a result of those imports—then you cannot be challenged. The action you can take is action that is warranted to prevent a market disruption.

Senator Connolly: And that is what the Americans do.

Hon. Mr. Jamieson: When we move under the Textile and Clothing Board they make a report; they suggest certain courses of action for us to follow, and I think with very few exceptions we have actually followed those. Certainly, I did a number of them only last week in a number of categories. There is no reaction, as Mr. Latimer has said, directly on the textiles. One has to remember, however, that there are countervails and other actions that may very well result if in fact the decision is acrimonious; in other words, if it is one that is very much opposed by the exporting country. To use a term we use in Newfoundland, there is more than one way to skin a cat.

Senator Cook: A "seal."

The Chairman: That is not confined to Newfoundlanders. Perhaps I might just interrupt to say this. We have been spending some time on Articles 3 and 4. It would appear that maybe in our thinking we are getting further apart in trying to reach some understanding. Perhaps the way to resolve it is for us to be told just what they do.

Senator Cook: Mr. Chairman, I agree with your comment that we are not getting very far in our understanding, but first let me quote from "The Canadian Textile Policy," issued by the C.D. Howe Research Institute. I should like the witnesses to comment on this. They say, in a footnote:

Several reasons have been put forward to explain the Canadian Government's preference for Article 3 agreements.

I stop there. That indicates that that is our preference. We could have Article 4, if we like. The footnote continues:

including its basic free trade option, its desire to assist the developing countries, its fear of retaliation against Canadian exports, and its desire to keep domestic producers on their toes. In view of the consequences of the choice of agreement for the textile industry, an examination of these arguments, particularly the real danger of retaliation, seems warranted.

It would seem to me, despite the evidence I have heard today, that this indicates that the Canadian Government had a clear choice to go under either Article 4 or Article 3.

Hon. Mr. Jamieson: Or in other ways.

Senator Cook: Never mind the other ways for the moment; they may be worse. The reason we went under Article 3, as the report says, was:

including its basic free option, its desire to assist the developing countries, its fear of retaliation against Canadian exports, and its desire to keep domestic producers on their toes. In view of the consequences of the choice of agreement for the textile industry, an

examination of these arguments, particularly the real danger of retaliation, seems warranted.

The Chairman: What you are doing, of course, is reading an opinion of the author of that report.

Senator Cook: That is right.

Senator Connolly: It is a pretty good one, though.

Senator Cook: I think it is a very good one.

Hon. Mr. Jamieson: It may or may not be. I am not sure what the conclusion was.

The Chairman: I am not in entire agreement with it, but that does not make it better or worse.

Senator Cook: I would like the witnesses to comment at the moment.

Hon. Mr. Jamieson: On the validity of those observations as to the approach we are using? I think I can remember some of them. On the retaliation question, of course it is always present. Certainly in terms of, let us say, the biggest trading partner we have, the United States, with more than 70 per cent, I cannot conceive of any arrangement that is likely to have any permanency to it that is not one to which parties basically agree.

Senator Cook: Have we any Article 3 agreements with the United States?

Hon. Mr. Jamieson: To my recollection, no.

Senator Cook: Then what are we speaking about?

Hon. Mr. Jamieson: With the greatest respect, honourable senator, the problem that I have found throughout this whole discussion this morning is that everybody is zeroing in on something under 25 per cent of all the imports, and we are forgetting the fact that still the biggest single exporter to Canada is the United States.

Senator Cook: I agree.

Hon. Mr. Jamieson: Therefore, the irrelevancy of much of the Article 3 or Article 4 question is obvious when we are talking about the Americans.

Senator Connolly: Mr. Minister, let me just say this. I think you are quite right about the volume of United States imports. I am sure you are right, because you know what you are talking about. We have had a lot of evidence here about the disruptive effect on the Canadian market of imports from the developing countries. We do not take everything as gospel truth just because we hear it here. However, we do want to find out, insofar as these disruptive influences from the underdeveloped world do occur, whether there is some action that can be taken on these under Article 3 or Article 4 of the ITA. The United States situation is another problem, really. This may be a small problem . . .

Hon. Mr. Jamieson: It is a major problem. I am not underestimating it.

Senator Connolly: It is big to them.

Hon. Mr. Jamieson: It seems to me that a good deal of emphasis has been laid on which approach one takes in terms of negotiating. I think the technique is not as important as the result. In other words, in my judgment my responsibility is to ensure that we get the proper kinds of

constraints or restraints in place, and we use whatever technique seems to be most likely to be effective in that particular case.

Let me refer to retaliation in respect of the underdeveloped countries. I do not think there is any question that if we are to enhance our export position into the developing countries, then we will also have to be able to ensure that we give them some encouragement. I come back to my basic point of half an hour or so ago, that what we have been trying to do is to see that they get import opportunities into Canada which are not basically competitive with the textile industry or some of the very sensitive industries.

Incidentally, I think there is merit—and that is why it is in the terms of reference—in examining this to achieve, as the discussion this morning clearly indicates the necessity for, clarity on the point, to see, under that third term of reference of the committee, what are the indications and what is the right approach. I am certainly not philosophically hung up on either one. In point of fact, any experience I have had in international matters indicates that usually it is not so much on the fine point of law that you get agreement anyway; it is because you have developed some kind of overall situation. For instance, by putting substantial moneys into the Asian Bank or helping the underdeveloped countries in a wide variety of ways, I think we can be much more influential in getting an accommodation from them and working out something with them. Therefore, I just want to make the point that basically I am prepared to . . .

Senator Connolly: That is a very important point that you have just made. We have not had that in evidence so far, but I think it is a very important point.

Hon. Mr. Jamieson: If I may be permitted to elaborate on it, I would say the situation, in terms of Southeast Asia, where much of this kind of thing is occurring—it is clear that it is a market of 230 million people, reasonably close to the size of both the United States and the European Economic Community; those are big trading blocs. At the present time, they do not have a great deal by way of purchasing power, in comparison, so those are the areas where our trade is not going to develop.

I am not prepared to sacrifice—if anyone has any doubts on the matter, let me lay them to rest right now—the textile industry, in terms of getting additional business in terms of Southeast Asia. What I have to ensure is a compatibility between our general efforts to increase trade and the legitimate aspirations of those countries, in terms of their own economic development. If you cannot do that, then whether we are using Article 3, 4, 11 or whatever, we are just not going to get very far.

Senator Cook: I am sure that is all this committee would want to be sure is done. That is what we want done.

Hon. Mr. Jamieson: There were 40-odd businessmen with me in Southeast Asia who heard me say repeatedly, in every one of the countries we have mentioned today, that "You should lay off textiles, as far as that being the main peg of your industrial development."

The Chairman: Can we move on to another aspect?

Senator Buckwold: I would just ask one question, as to whether the use of Articles 3 or 4 control the trans-shipment of export goods from countries through a third country, which we have heard in evidence before our

committee is developing into a fairly significant problem. You have control over goods coming from Taiwan, so they send it to Hong Kong and in it comes. Could you explain to us how restraints may become operative in that regard?

Hon. Mr. Jamieson: I will ask Mr. Latimer to answer that question.

Mr. Latimer: If you have negotiated a legitimate restraint under Article 3, and it has been invaded by third country shipments, you can take action to stop this.

Senator Desruisseaux: How long does that action take?

Hon. Mr. Jamieson: I will answer that politically, that is, as a political and governmental spokesman. I think, on balance, it always takes too long. There is something wrong with our system, which we want to examine, as to how we can get these reports more quickly and how we can make the decisions on the reports more quickly.

I have only had six or seven months at it. I hoped the industry would be prepared to concede that, at least, there has been some improvement, in that the last group of reports was tabled within a month of their receipt and the decision was announced on the same day.

I hope to be able to do even more, because to use the expression that was mentioned earlier, it is too late to bar the door after the horse is gone. In many instances, this industry is very volatile and there has to be a good kind of continuing watchdog approach on it.

Once again, if the industry can come up with specifics on how this can be done and how we can improve our procedures, we will be glad to look at them, if they are rational and sensible, and then I, for one, will be prepared to implement them.

Senator Desruisseaux: I may say this is a welcome piece of news.

Senator Laird: Yes, and also the matter of setting up the committee.

Senator Molson: In the evidence that we have heard, one of the matters brought up is that in the process of our negotiations with other countries our industry very often was not in nearly as good a position as the industries of some other countries, like the United States, to have a close input with our negotiators. We are speaking about the administration of these policies, and I wonder if some notice of that might be taken, and we might work toward getting closer co-operation so that, in fact, those people who are most interested are at least given the best possible opportunity to have some effect on the negotiations with other countries.

Hon. Mr. Jamieson: I would like to comment on this because it involves the whole question as to what extent one "involves." It is not just the textile industry. It seems to me it is a problem that runs across a good many government activities, where the interested party feels he should be involved either in the negotiations or in the proposal stage. There are many problems with that.

One thing that brings an industry together is a common wish for a change, let us say, in some kind of governmental policy. However, one should not forget that there is competition within the industry. How does one make sure that the representations that one gets from participants, or whoever they happen to be, are in fact speaking for the entire group?

I would have to say to you, and, indeed, all of you who have had substantial experience in business know, that it gets a little trying for a Minister of Industry, Trade and Commerce to meet a delegation and then have one or two who wish to stay behind for a few minutes to say, "Look, I had to go along with these fellows but this is not really my point of view." I make that point because it makes it very difficult. Associations do not always have such commonality of interest that there are not differences within the group.

The second point—perhaps more valid and, indeed, I would welcome some advice on it—is a view held by some concerning when the Textile and Clothing Board makes a report, and it has been our policy that we table the report and announce the governmental decision at that time. The reason for that, though there are those who wish us to do otherwise, is that to simply table the report and not indicate what we are going to do on it is to start a whole new round of representations. I have been in business myself and I know that is what I would do. I would look at the report and know that no decision had been made, and say that there is still time for me to start representing across the board, all over again.

I am talking about industry in general here, whether it be the textile board or not, and it is conceivable to me that this is a very key question to ask: Should we let those who are interested second guess a statutorily established board, by simply putting out the report and saying, "We will take any comments on it," because as the senator who was speaking about this earlier said, this delays the process but it does give people a second appeal, as it were.

Senator Desruisseaux: Mr. Minister, on April 16 you tabled three reports with respect to outerwear. The proposed government measures, as set, fall short of those recommended by the board. The board recommended that arrangements be concluded with the Republic of Koera, Taiwan, Hong Kong, The People's Republic of China and the Philippines, to limit their exports to Canada of outerwear as prescribed for the 36-month period beginning March 1, 1976 to levels calculated in accordance with the Arrangement Regarding International Trade in Textiles.

In spite of this recommendation, the government merely initiated global import surveillance on outerwear which will indicate the country upon which import restraint arrangements are required to avoid disruption in the Canadian market. It seems to me that it is quite difficult to understand the reasons underlying the government's reluctance to implement the board's recommendation, particularly in light of the thorough nature of the board's inquiry, as evidenced in the attached copy of its report and findings of serious disruption in the Canadian market and the elements comprising it.

In view of what you have said, that the administration took into consideration the recommendation of the board, is there some explanation for the behaviour—I suppose not "behaviour"—but is there some explanation.

Hon. Mr. Jamieson: There certainly is, and if the author of that had made the representations directly—and I think they know the answer anyway—the fact is there is a question of getting a statistical base upon which to take action.

Mr. Latimer, since it is a technical point, I would defer to you for the explanation which was made to me, upon which I made the decision.

Senator Desruisseaux: I think it is important to put it on the record.

Senator Keith Laird, (Acting Chairman) in the Chair.

Mr. Latimer: The explanation is that on the basis of the material we had available to us—and it has been generally recognized that there is a considerable lack of statistical data on which to deal with particular sector problems, and that has been acknowledged, I believe, in some of the hearings before your committee—on the basis of that, what we really required was more data so that we could get precision against which we could proceed with an appropriate negotiation. It was a question of inadequacy of data and successfully to identify the specific problems involved and successfully to negotiate the necessary restraints. It was as simple as that.

Senator Desruisseaux: May I ask if industry agreed with your point of view?

Mr. Latimer: I really don't know.

Senator Desruisseaux: You don't know? You were not consulted on this?

Mr. Latimer: We are back to the other question.

Senator Smith (Colchester): Mr. Chairman, I wonder if I might ask Mr. Latimer if he is really saying that the board did not have sufficient information before it correctly to make the recommendation it did in this matter.

Mr. Latimer: I did not say that. I said that we did not have the data sufficiently to pinpoint it successfully to negotiate with the countries involved.

Senator Smith (Colchester): Well, are you saying that you do not accept the finding of the board as valid because it did not have enough information?

Mr. Latimer: No, sir, that is not exactly what I said at all.

Senator Smith (Colchester): I am not concerned with what you exactly said. I want to know what you really said.

The Acting Chairman: There is a difference?

Mr. Latimer: I said that the data available to us was inadequate to lead us to believe we could successfully negotiate the restraints proposed so that we have introduced a surveillance system in order to acquire that data. It is as simple as that.

Senator Desruisseaux: Was that a decision by the chairman of the board?

Mr. Latimer: No, sir, it was not.

Senator Smith (Colchester): To me, sir, that is the same as saying that whoever makes that statement does not agree that the board had sufficient information before it on which validly to make the recommendation it did.

Hon. Mr. Jamieson: There is certainly no reflection on the board. There are, surely, two separate processes involved. The board, on the basis of what information was available to it, came to conclusions, which, by the way, in the presentation I had made to me and the discussion I had with my officials I did not quarrel with at all. I did not quarrel with the conclusions. It seems to me that I have taken the position that the board's recommendations are valid. However, in terms of going back to what we were

talking about earlier, about negotiations and so on, there is quite a difference, when one is going to the foreign country concerned, or more than one foreign country, between being able to put factual data material on the degree of imports, et cetera, into the negotiation process and merely using a board report to do so. The two are different exercises. In the other cases, the data, the information was adequate for us to say, and for me to say, "Okay. We will move on the basis of what the board has said." In this particular case I was satisfied that we did need to have some further assessment in terms of surveillance of what was actually happening so that when we went to make the case—and indeed we intend to make the case—we would have the factual data on which to proceed, which would, in other words, make our negotiation position that much stronger.

Senator Smith (Colchester): Thank you, Mr. Chairman, but . . .

The Acting Chairman: You are still wondering?

Senator Smith (Colchester): I am still wondering. I am not only wondering, I am completely and utterly doubtful. I thought this board's task was to ensure itself before it made a recommendation that all the necessary facts to support its recommendation were available to it and proved before it, or established before it. If I am wrong about that, of course, then I am wrong about having my doubts.

Hon. Mr. Jamieson: The board has fairly wide-reaching capabilities in terms of assessing and the like, but it is not likely that in 100 per cent of the cases the conclusions that they will reach, working entirely, in a sense, within a domestic environment—that is, they are not negotiating with the other countries and they may not necessarily have all the support data. It may be adequate for our purposes or our conclusions, but in terms of the negotiating process we may need something additional. In this particular case it was the view of those who advised me on this matter that they needed additional information. But it is not to say that the board is inconsistent or that we disagree with the Board. It is merely that, the judgment being for negotiating purposes, we needed additional facts.

Senator Molson: How long might that take, Mr. Minister?

Senator Smith (Colchester): Let me read what was said—at least it is what I understood was said—that this surveillance would be for the purpose of indicating which are the countries with whom import restraint arrangements are required in order to avoid disruption in the Canadian market. That has nothing to do with arming oneself with statistics to go to that particular country or those particular countries and say, "Look, old man, we want to make a bargain with you."

Hon. Mr. Jamieson: That is exactly what it is.

Senator Smith (Colchester): You are saying you want to find out which ones you ought to be dealing with.

Hon. Mr. Jamieson: Well, it is the same thing, surely. The surveillance, getting the statistics, tells you the sources from which the material is coming.

Senator Smith (Colchester): In fact, then, what you are saying is that you are not satisfied that the Board knew which countries ought to be dealt with.

Hon. Mr. Jamieson: Mr. Latimer has pointed something out to me, but it might be better if he explained it directly.

Mr. Latimer: I would acknowledge something: If I had to draft the—I think it is the press release you are talking about?

Senator Smith (Colchester): Yes, which I take to be correct.

Mr. Latimer: It says what it says. Yes, it does.

Senator Cook: That is a step forward.

Mr. Latimer: The board made specific recommendations about specific countries. Agreed. The need for surveillance exercise is to get specific data in order to enable us to carry out the effective negotiations with the countries involved.

Senator Smith (Colchester): You agree that that is what the press release says.

Mr. Latimer: I agree with that.

Senator Desruisseaux: What is the specific data you are alluding to?

Senator Salter A. Hayden (Chairman) in the Chair.

Mr. Latimer: I would have to do another review of this in rather precise terms, senator. The problem which existed was precisely how much of what product was coming from precisely that particular area, and we did not have that information. We did not have it.

Senator Desruisseaux: Could you obtain that data?

Mr. Latimer: No, sir, that is what the surveillance is about. We are acquiring the data. We have also acknowledged that there is inadequate data generally, and I think the industry itself acknowledges this in dealing with some of these problems.

Senator Buckwold: Mr. Chairman, if I may go to another subject, what I wish to say is not so much a question as an observation. Some of my previous questions may have indicated a strong desire for a viable, efficient textile industry in this country. On the other hand, I want to make it perfectly clear that there are members of this committee, myself included, who are also interested in the consumers of Canada, an aspect of the situation which has not been mentioned here today. The fact is that the consumers of Canada are also entitled to consideration in respect of the costs of textiles and textile products.

I am a firm believer in a strong industry, but I also believe that there is room for controlled imports. I say to the minister that from the point of view of those who are the users and the buyers of these articles, and in the light of the inflationary trends, the interests of the consumer also must be considered, as I say, in the overall context of our own industry. I hope that that will always be kept in mind.

Hon. Mr. Jamieson: That is quite correct, senator. As I said earlier, it is simply a question of dealing with one sector. Since the announcement was made, however inadequate some people may feel it was—and I would disagree with those who say it is inadequate—the fact of the matter is that it has generated a sizable amount of criticism for precisely the kind of reason you have mentioned, namely, that it runs counter to the interests of

consumers, not just in textiles but in a variety of other ways. I am sure you have heard the argument that the protectionist element is one that is not in the consumers' best interests. I do not necessarily agree with that, but on that score, and also on the score I mentioned earlier, there was a lengthy and, I thought, comprehensive letter in the *Globe and Mail* yesterday morning from someone who obviously knows a good deal regarding the whole question of this policy as it relates to our international posture and our position vis-à-vis the developing countries. All of these policies have to be balanced, and that is what makes it so difficult.

Senator Buckwold: I just thought it was important, at a meeting with the minister, that consumer interests be at least on the record and considered.

Senator Laird: Mr. Minister, is it not possible that this *ad hoc* committee that you have, with commendable foresight, set up, may be dealing with this very sort of thing, and making recommendations? By the way, congratulations on including representatives of the industry on the committee, because they have complained on occasion, you know, that they were not included; and congratulations also on insisting on a report by the end of June. But is it not this sort of problem, including a number of others that have been discussed here in the last few minutes, that will be dealt with by this *ad hoc* committee?

Hon. Mr. Jamieson: I think there is every reason to hope that the committee will deal with these things. Indeed, as regards the officials, I will ensure that they will be discussed. I hope that they will particularly get into the question of consumer reaction, and that type of thing.

There were a number of elements in the textile policy of 1970, one of which was to take into account the contribution of the industry to the Canadian economy as a whole. I have looked at these points again, and on that one I can say that the industry has been quite far-sighted. I am not among those who feel that they have been reactionary and unimaginative. I feel that the industry has done quite a good job of rationalization, modernization, and that type of thing. As I said earlier, I think it does make a worthwhile contribution, particularly since it is labour-intensive, and particularly since it employs the kind of labour for which it would be difficult, in many instances, to find alternative employment.

Senator Laird: And they will make a valuable contribution to your *ad hoc* committee.

Hon. Mr. Jamieson: Yes. I just wanted to add that, as is noted here, the interests of the consumer formed one of the elements which were basic to the policy in the first instance.

Senator Cook: I am glad the minister referred to the letter in the *Globe and Mail* from the gentleman who the minister seemed to think knew so much about policy. One of his statements deals with low wages. On that score, I should point out that some of the evidence we have had is that wages in this industry are not lower, but are higher, if anything, than they are in the United States. He makes the statement here:

Such low-wage workers would contribute much more to the national economy and earn significantly more if conscious anticipatory planning could adjust our industrial structure and shift them to more technologically sophisticated industries.

That sounds awfully good. I wish he could send us a few.

He goes on later to say this:

Government intervention is undoubtedly essential in the textile and clothing sector, but it should be creative intervention designed to ease the transition of Canadian workers to better jobs . . .

All these economists refer over and over again to "better jobs". Nobody ever refers to one job.

Might I say to you, Mr. Minister, as a distinguished Newfoundlander and a former outstanding minister of DREE, that you know how many millions of dollars were spent trying to create jobs, and that the whole of the Atlantic provinces is littered with the wrecks of efforts spent in trying to make water run uphill.

Hon. Mr. Jamieson: I agree with you. In making reference to the letter my remarks were not necessarily an endorsement of it; I was merely pointing it out. I have spent a good deal of my life, both in and out of public life, as you say, trying to run against the wind, or trying to make water run uphill, and I accept the fact that it is not as easy as it sounds to divert workers into so-called creative industries.

Senator Desruisseaux: The comment has been made that as a result of recommendations that were made by the board but that were not followed, no unilateral action was taken. If this had been done, possibly the data that were necessary, as Mr. Latimer said, could have been obtained. Have you any comments about that remark?

Hon. Mr. Jamieson: I presume this is a view held by at least some segments of the industry, and maybe the industry as a whole, for all I know.

Senator Desruisseaux: That is right.

Hon. Mr. Jamieson: I come back to the point that the alternative to moving in the direction I did, on the advice I received, would have been to table the report, take no action, and then let people make further representations on it.

As I mentioned earlier, my feeling at the moment is that a good deal more thought is needed as to whether we should go that route or not. The judgment I made on the basis of the recommendations given to me was that we should take this interim step. I am prepared to defend the official recommendation in that case. It seemed to me eminently sensible. On the other hand, of course, it is interesting to wonder, with regard to this business of the clothing recommendations of the Textile and Clothing Board, whether the industry, or, indeed, even people in public life, want to take those recommendations as though they were etched in stone. I would be curious to know whether people have such total and overwhelming confidence in this board that they would not want the minister, or somebody else, to change some of its recommendations from time to time. I think there is some inconsistency, in other words, in saying in every case that we ought to do it, because I am sure there are cases where, if we did do it, it would not be welcomed by the industry.

Senator Desruisseaux: I can assure the minister that in the case of the workers who have lost their jobs because of imports there would be no doubt whatever as to what they would feel.

The Chairman: Mr. Minister, I want to get an understanding of this special committee, as I will call it, that you are setting up. It appears to have among its terms of reference some of the functions that certainly, in the long run, are part of the functions of the board.

Hon. Mr. Jamieson: Of the Textile and Clothing Board?

The Chairman: Yes. Are we creating a possible conflict between the board and the committee?

Hon. Mr. Jamieson: I do not think so. In the first instance, this is very much an interim step. The committee comes to an end on June 30 of this year. It is to have brought its findings in by that time, and it is essentially designed to put in place a number of recommendations which would then have an effect on how the board functions.

The Chairman: You say that this would have an effect on how the board functions, if it were accepted by you and by the government. Do you think this would involve amendments to the existing legislation?

Hon. Mr. Jamieson: That is conceivable, and I do not rule it out.

The Chairman: You are not, I take it, setting up this committee as an entity which, as part of its work, will be expected to review reports and decisions that the board has already made in regard to matters that have come before it.

Hon. Mr. Jamieson: That is not something I contemplate. I think the terms of reference are fairly specific. Its responsibility is to review the administration of the policy in relation to import competition.

The Chairman: That is right.

Hon. Mr. Jamieson: That is in the broad sense. I do not expect they would sit down and analyze every report the Textile and Clothing Board has brought in. But if people are going to say, on the one hand, "We don't think the board has been functioning properly, or that the policy is being implemented in the way it was intended,"—and that is going further than I would be prepared to go—but if they say that, then surely one of the things that has to be done is to take a look at what the board has done, but not in the sense of individual actions or anything of that nature. What I had in mind was more closely connected with the question of delays and how long these processes take.

The Chairman: That is the delay in the consideration of matters before the board, and the delay in the report.

Hon. Mr. Jamieson: And the delay after the report is received. And then there is the question as to how it gets into the public domain.

The Chairman: The point is that there seems to be something that operates to stop the results of the board action after they have delivered their report and recommendations to the minister.

Hon. Mr. Jamieson: I think there is an inordinate amount of delay, but I think it can be explained. However, I think the processes that we follow are such that they can be short-circuited here and there in order to limit the amount of time. Basically the problem arises from the fact that in tabling the report, as I have mentioned earlier, it has become the practice to recommend what the action should

be, and this means that there has to be some considerable time lapse while the recommendations are examined and the implications determined.

Senator Molson: Mr. Chairman, might I ask the minister about a point which troubled me a little about the subject of the last report of the Textile and Clothing Board and the need for much more information before action can be contemplated? Is there any inference there, or any implication, that this is the situation we are faced with in general with regard to all trade agreements—that we do not have the information we need to cope?

Hon. Mr. Jamieson: Mr. Guérin could probably respond to that. You are speaking not just of textiles but of industrial information generally.

Senator Molson: Yes. It comes up here that this report is made and action is recommended, but because of the dearth of information, that action cannot be implemented because it takes time to accumulate enough information to cope. Is there an inference there that we are not equipped with any of these things?

Mr. Guérin: As a general rule, the information that the board needs to make its decision or to arrive at a conclusion is not necessarily the same as, or as detailed as, that required to undertake these specific negotiations on specific products in specific territories. That is as a general rule. But having said that, I would like to remind you that by and large the minister has accepted the board's recommendations and has in fact negotiated a series of restraint agreements. In this instance it was felt that the precise information required was not available, and that information was going to be got out of the exact source. In other words, this was placed on the surveillance system where now every import into Canada from all of these sources will be identified so that the very precise information will be available for the minister to consider taking action against the board's recommendations.

Senator Molson: I understand that is what is going to happen, but what I am asking now is this: Are we going to have this situation repeated next month or next week? Are we going to have something brought up and then have a report come forward which says that we do not have any information? In the matter of trade agreements generally, are we equipped to find the statistical information we need in order for the minister to deal with the situation?

Hon. Mr. Jamieson: My general impression is that the answer is yes, that we are quite adequate in terms of the statistical base of industrial development, imports and exports and this type of thing. Certainly I have not had any serious problems in many of the other sectors that I have to deal with. Of course, it is a very fast changing export picture these days and one of our problems is the getting of data rapidly enough through Statistics Canada, or whatever the case might be; and secondly, there is the problem of personnel. There is a third one with which I am grappling at the moment, and which is not germane to this discussion except in a general way, and that is the enormous paper load that is being put on the private sector in terms of seeking information. I have asked Statistics Canada to tighten up the situation to see what is really necessary and what is really extraneous and can be disposed of. Because in order to get the kind of data that you refer to, and which I agree is necessary, we are once again required to send out more forms to be filled in, to keep more monitoring on the go, and this is becoming, for

small businesses in particular, a very serious problem. But let me put it this way, in dealing with the United States, which is probably the best comparison, I have found that statistically we are in every bit as good shape as they are in most of the sectors with which I deal, and I would say that in some of them we might have an edge on them.

The Chairman: I should like to ask Mr. Guérin a question. Did I understand you to say that the non-acceptance of the board's recommendations in connection with outerwear was because you did not feel that all the information that might be required at a higher level was available in the report?

Mr. Guérin: First of all, Mr. Chairman, I did not say that the board's recommendation was not accepted. I said that the precise information which is required to undertake a particular negotiation with a given country on a given product was not available.

The Chairman: I see. Now in many reports of the board the minister has accepted the recommendations, and has carried on from there in accordance with the recommendations. If I were to study all of those reports, do you think I would find differences that would emphasize the point you are making?

Mr. Guérin: I would respectively suggest that you would, sir.

The Chairman: Is it practicable that you might make a statement now or that you might furnish us with a statement as to what was the information that was not available in this report, so that we can check it for ourselves?

Hon. Mr. Jamieson: Mr. Guérin has suggested to me that since the question is comprehensive, it would be better to give it to you in writing and in detail. We will undertake to make that available to you within a relatively short period of time.

The Chairman: All right. But why is it that some of the board's recommendations were accepted? Did they proceed in a different way? Is there some amendment needed to the authority of the board so that they may go forward and get more information? Because if we just make the statement that you have made, then that is not being too helpful.

Mr. Guérin: Well, Mr. Latimer, a short time ago, referred to certain difficulties with the available data, generally speaking. As a general rule it is much more difficult to obtain data from both Statistics Canada and from the industry at the level of the garment industry than at the level of the primary textile industry. Our import documentation is very broad in character and does not provide this very precisely because, as you can well imagine, sir, "outerwear" can mean . . .

Hon. Mr. Jamieson: Anything from the shorts out.

Mr. Guérin: Dozens of different items. To approach a country and suggest that we would like to have them restrain all their outerwear exports to Canada would cause them to respond by asking which outerwear and informing us that they do not export certain types. That places us in a very difficult position from a relations point of view.

The Chairman: It seems to me that all that would be needed in order to do that would be the evidence which

was submitted to the board and to know to which particular products it referred. Therefore, the board decision and recommendation must have proceeded on the basis of the material before them. I have read the report and the recommendations and am a little puzzled, which is why I pose these questions to you.

Hon. Mr. Jamieson: Having read the report, would I be presumptuous, sir, in asking for your definition of "outerwear"?

The Chairman: I would rely on the evidence that was submitted.

Hon. Mr. Jamieson: My point is that the evidence submitted, as Mr. Guérin said, was not sufficiently specific.

The Chairman: The report does refer to snowsuits, as follows:

As a result of this inquiry the Board has concluded that outerwear garments commonly referred to as

(a) snowsuits, snowmobile suits, "ski" suits and ski pants; and

(b) jackets, including parkas and so-called "ski" jackets

which have an outer shell manufactured substantially from woven fabrics, which are lined and which are designed to protect the wearer against cold or inclement weather, are being imported from the Republic of Korea, Taiwan, Hong Kong, The People's Republic of China and the Philippines at such prices, in such quantities and under such conditions as to threaten serious injury to production in Canada.

Perhaps I lack the necessary training and experience, although it has not been detected in many places so far.

Hon. Mr. Jamieson: You are really sheltered over on this side of the building!

The Chairman: I have never felt that I was. This is a rather clear description of the area.

Mr. Guérin: May I respectfully ask, sir, if there are data respecting the number of snowsuits imported from South Korea and the Philippines separately? Do we have the number of ski jackets and the number of outerwear pants for snow purposes for any of those items which are mentioned there? Do we have the precise numbers imported from those countries?

The Chairman: Have you on any other report taken action without obtaining all that information?

Mr. Guérin: As I mentioned, sir, in the clothing area the precise data is terribly difficult to obtain. For instance, if the board makes a recommendation with respect to acrylic yarns, that is a relatively simple matter. It can be quantified as a separate import item, is measureable and can be identified from various sources, whereas in connection with outerwear, for instance, that problem exists.

The Chairman: Except that the board has circumscribed the area.

Mr. Guérin: I am sure that the total aggregate imports from all those countries are quite impressive and, presumably, this is the basis upon which the board made its recommendation. However, when we come to the point of negotiating a restraint with one of those countries, then because of international rules, the ITA, we must submit

that type of information and before that is done they can stonewall and block.

The Chairman: Now, just let us test that: It would appear from the board's report that the situation for the industry in Canada in this area is very serious and threatens damage or injury and actually may be causing damage or injury. Is the situation sufficiently urgent on the evidence before the board and the fact that they have made such a recommendation that some action should be taken at once by way of staying the effect of this damage or injury until you gather the remainder of the information? You have the authority to do that.

Mr. Latimer: The facts are that these items are now under import surveillance. That means that an import licence is required to bring them in.

Hon. Mr. Jamieson: That was the action taken.

Mr. Latimer: To get an import licence indications must be given to us as to the kind of orders outstanding and if that information in consideration of the application for a licence indicates a very serious situation and . . .

The Chairman: Mr. Latimer, I am glad you mentioned that because when I read the press release indicating this particular item I could not gather from it that you intended to include this item on the import control list. We know and we developed in our report that if an item is included in the import controls a permit must be obtained in order to bring any of that product in.

Hon. Mr. Jamieson: That is right.

The Chairman: That is some element of control, but what control and what authority is exercised when there is an application at that stage for a permit to bring in any of these items which have been included on the import controls list?

Mr. Latimer: The control at the moment is that a licence will be issued if the necessary data is provided.

The Chairman: Which you demand from the exporter.

Mr. Latimer: From the importer.

The Chairman: Then he must go to the exporter.

Mr. Latimer: Well, he knows what he has ordered.

The Chairman: Well, he should.

Hon. Mr. Jamieson: Yes, and I may say, by the way, that in that connection I have before me a request from the importers' association, which wishes to roundly condemn the fact that we have even gone this far. Maybe that association should appear here.

The Chairman: They will have their chance.

Senator Connolly: Mr. Minister, as we have said earlier we are talking here primarily, and most of this meeting has been about, the disruptive effects of imports from the underdeveloped world. The evidence has been that the ideal situation would be if we could have Article 4 agreements with as many as possible of, if not all the Third World Countries which export these products to us. Would that be the number one priority for the government policy in respect of this area? In other words, would that be the top priority under which the government would consider its policy in respect of dealing with this disruptive trade which we are experiencing?

Hon. Mr. Jamieson: Yes, I would certainly say that. I would have to, of course, broaden it beyond a single commodity or heading such as textiles. The objective, it seems to me, has to be a policy which assures a degree of certainty and stability within the domestic industry. At the same time, it enables us to negotiate with other countries so that not only in terms of our international posture on a policy basis but in terms of our anxiety to increase our trade we do not run into restrictions in those countries, and we will prohibit the growth which we think is there and which is so important to us.

Senator Connolly: These Article 4 agreements contemplate a certain degree of trade between Canada and that country on an escalating basis annually, so that there is something in it for them. There is then the other possibility, that we have the means of preventing too much of a surfeit of those exports coming here by import controls an other means.

Hon. Mr. Jamieson: Yes. That is why I think it is very worthwhile to examine the Article 4 type of approach. As I say, we are quite prepared to do that in those cases where it is logical.

Senator Connolly: Will that be one of the points that this new committee will have . . .

Hon. Mr. Jamieson: Yes. As I mentioned, the terms of reference make specific reference to the . . .

Senator Connolly: —as a top priority?

Hon. Mr. Jamieson: The committee itself can obviously decide that, but I think it is a most important part of it. There is another question here which in a broad sense the committee may wish to deal with. Incidentally, I use the textile industry because that is what we are talking about. But nevertheless in many other industrial sectors the same question applies. That is, what is the optimum size for the textile industry in Canada. We could have a situation, for example—again I do not say this in any fashion of having any conviction about it. I am putting it out as a question. For instance, DREE has put a very sizeable amount of money into textiles over the past four or five years. Is that the kind of thing we should be doing? Many people have criticized it and said that we are encouraging expansion where it should not take place.

I have raised this with industry representatives. They argue that we cannot stand still; that we have to have some kind of continuing momentum, otherwise the thing starts to go down. To use the senator's phrase about the litter of unsuccessful industries, there is also a fair litter around here with everyone getting too enthusiastic and expanding particular sectors beyond what appears to be the logical, manageable limit for a country like Canada. Perhaps the best example in that category is the aerospace industry. So that too is very worthwhile looking at.

Senator Cook: I am so glad you raised that point. We suggested in our report that some 75 per cent of the total domestic market should, if possible, be allocated or reserved for Canadian manufacture. Would you consider that to be a reasonable figure?

Hon. Mr. Jamieson: I would think it would be high, given the historical figures; but I have not really applied myself to looking at it as a reasonable goal. I think it preferable for me to reserve judgment on whether 75 per cent, or whatever . . .

Senator Cook: I meant to say 65 per cent.

Hon. Mr. Jamieson: I think there should be something, in which we say that a certain degree of activity, a certain level—which is manageable and which allows for a certain degree of expansion, but which does not result in tremendous peaks and valleys in the industry, in this industry or any other—is far more desirable than helter-skelter growth.

Senator Cook: Some measure—whatever it might be—should, as far as possible, be allocated for local consumption.

Hon. Mr. Jamieson: It is certainly very worthwhile looking at.

The Chairman: I have another question on the same subject for Mr. Latimer. I am concerned about how far the board's recommendation has to develop the whole factual situation before you accept it. To me—and this is only one person's opinion—it appears to be a glaring case of where the industry in this field was being badly hurt. I notice that in the board's report it says, at page 10:

In order to obtain a more accurate assessment of the situation, the Board undertook a special survey in collaboration with the Textile and Consumer Products Branch of the Department of Industry, Trade and Commerce. Because of the fragmentation of the industry, and the lack of precise statistical data from published sources, the Board decided to address itself to the performance of those manufacturers with sales in excess of 1 million dollars and those who were known to be heavily committed to the production of the items forming the subject of this inquiry. At the same time the Board decided that rather than rely on available import statistics, such information should be obtained directly from importers through the Canadian Textile Importers Association, the Retail Council of Canada and Canadian manufacturers who are engaged in importing.

They then go on, at page 11, to give a record of Canadian shipments and imports, as reported in the survey, for 1973, 1974, 1975, and 1976.

Part of this study they were making found its way through to your department. At that stage, when the board is making studies or surveys of this kind—and they do consult your department—what is it that the department gives them? Does it give them all the information so that in connection with the recommendation, if any, or the manner of dealing with it when it comes to you, you will have the information—or do you just answer their questions?

Mr. Latimer: We supply the board with whatever information we have. I did not like the way you put the question, Mr. Chairman. You said in deciding whether to accept the board's recommendation.

The Chairman: Yes. I am talking about the department: I am not talking about Mr. Latimer as Mr. Latimer; I am talking about the department and the minister, who is the head of the department. What they did is exactly what you now say you would do: that is, go to the importer . . .

Mr. Latimer: Let us get back to the question, in which we are told: "Go to the People's Republic of China and ask them to restrain their shipments of ski jackets to you by so many thousand dozen." I do not think we precisely know

how many ski jackets are coming into Canada from the People's Republic of China. We know as a group, from the kinds of orders that are around, and we are bound to know pretty damn soon how many ski jackets are coming from China. We have them under import control, and if there is a real problem we can deal with it. In order to negotiate a restraint . . .

The Chairman: You cannot move on the admission of those products until you get that information?

Mr. Latimer: We have them under import control now.

The Chairman: I know you have them under import control and you can give or refuse an import permit. What I am saying is, some of the evidence before us sort of suggested that in a number of cases the issuance of import permits was a rather perfunctory action.

Mr. Latimer: There is a bit of a condition on this one, in terms of providing us with the orders.

The Chairman: My specific question was, if an application comes to you for an import permit in connection with outerwear from the countries that are named in the board's report, will it be dealt with in that perfunctory way, or will you issue or approve of any permit before you have gained all this information that you told me you need on top of what the board has given you?

Mr. Latimer: I do not think I can answer that. At the present time, if an applicant applies for a licence and provides us with the data that we have indicated we require of them, we will issue a licence. That is, at the present time.

Senator Desruisseaux: To anyone, without restriction?

Mr. Latimer: That is right.

The Chairman: Do you see the conclusion that you are forcing? Here is a board report which recommends certain action because the industry is being hurt. You do not act on the report the "you" is impersonal; it is not Mr. Latimer. You do not act on the report because it is not precise enough. Therefore, you are going to get the precise information by demanding it from the importing country. However, the information as contained in the report was obtained from that source.

Does the difficulty lie in the fact that the report does not go far enough?

Hon. Mr. Jamieson: It does not go far enough.

The Chairman: Then how can you say that perfunctorily you would issue an import permit if you are at a stage in the consideration of this question where you do not have all the information but you know the industry in Canada is being hurt?

Mr. Latimer: Mr. Chairman, if we receive an application for an import permit and the applicant states he has placed so many orders and wants to import certain amounts, it would not take very long to see whether or not there is a real problem, and in that sense we can act.

Senator Desruisseaux: How long?

Mr. Latimer: As soon as the man applies for the import permit, if that is the evidence.

Hon. Mr. Jamieson: If I may interject, Mr. Chairman, I do feel these are questions of policy. I think it is quite

unfair to be directing them to Mr. Latimer directly. I would prefer that you ask me such questions. I have allowed considerably more latitude in the questioning of my officials than would normally be the case because I wanted to be as open and frank as possible. However, I think it is unfair to put people who give me advice into the position of indicating the nature of . . .

The Chairman: Mr. Minister, it is unusual for me to be told that my questioning—not the subject matter of my questioning, but the questioning of the person—was unfair. I am not saying I resent it . . .

Hon. Mr. Jamieson: I do not think I said it was unfair. I said it was unfair to ask such questions of an official in certain respects. I have a very competent group of people who advise me, and I do not think it is appropriate to be asking them questions other than on factual matters. I take that position as a minister, and I am quite prepared to defend it.

The Chairman: It is always open to a witness who is asked a question to say he cannot answer it.

Hon. Mr. Jamieson: Perhaps that is what we ought to have done. I was seeking to be as cooperative as possible, Mr. Chairman, and told my officials to be as frank as possible in answering questions from the committee.

The Chairman: Perhaps I will transfer my question to you. Given the board's report on outerwear indicating the damage to the domestic industry, and given the fact that these products are now on the import control list, capable of being imported only with an import permit, and the fact that your department is proceeding to secure more exact or more precise information in relation to the kinds of products coming in under this general heading, will import permits be issued in a perfunctory way, or will the issuance be held up until you get the particular information that you feel you need in order to make a decision as to whether you should implement or not implement the board's report?

Hon. Mr. Jamieson: First of all, the decision to implement the report was not rejected. In other words, the recommendation was not rejected. I have accepted the finding of the board with regard to damage. I say that to dispose of any argument as to whether or not there is disagreement between the board and myself, or the department, on that score.

Having read this documentation and the report of the board, I asked many of the same questions. I was convinced that the basis on which the data was presented was inadequate at this time to give my officials the necessary ammunition with which to go to a specific country and outline what we are proposing to do.

The technique, as I understood it, and as I still understand it, is that we acknowledge the problem and we indicate we are prepared to act on it, and we now need the basic information on which to act.

I think the word "perfunctory" is probably a little too broad; "routine" might be a more direct word. When you ask whether these will be handed out routinely, the answer from my point of view would be to instruct the officials to look at those very carefully before any such permits were issued. Furthermore, I will be advising the officials to keep me posted on a continuing basis as to what evidence they see in terms of the import permits, or

applications for such permits, and we will take whatever protective action is deemed to be necessary.

I cannot be more specific than that because in a sense it is hypothetical until we know what is in front of us. I do think it is enough to say, as was mentioned earlier by the officials, that we are going to go to a range of countries and discover that some of the ones mentioned are not involved, or are very peripherally involved, in a particular commodity or item.

What we have to do is to find out specifically where they are coming from. Certainly, it is my intention to ensure that this is done carefully and rapidly. We were asked how quickly this could be done. I think we can accumulate this kind of information fairly quickly. Indeed, if the industry itself has more data—and I am sure they are going to say they do—then, by all means, let's have it and let's discuss the best way of determining specifically what's what. Indeed, I think it would be far better if we had a closer liaison between government and industry in terms of getting this data, this information, or achieving a common understanding of our objectives, than has been the case in the past, and I hope this committee will assist in bringing about such a liaison.

Senator Desruisseaux: Mr. Chairman, may I ask a further question with reference to these import permits?

If import quotas are exceeded, does the department have a follow-up procedure in relation to such violations?

I have information with respect to one of the firms in my region, to the effect that since January 1, 1976, the quota on a competitive product was exceeded and no action was taken.

Hon. Mr. Jamieson: Mr. Latimer may have the statistical data.

Senator Desruisseaux: I am wondering what the government's policy is with respect to these control permits when the quotas are exceeded.

Mr. Latimer: Where there is a restraint agreement and there is an overshipment beyond the level of the restraint agreement, there are facilities to deal with it. We can take action to correct such overshipments.

Senator Desruisseaux: You say we can deal with it. I am asking specifically what action is taken when quotas are exceeded.

Senator Bell: Perhaps you could give us a concrete example, Mr. Latimer, setting out precisely what happens.

Mr. Latimer: You have to bear in mind that we are talking about two kinds of exercises. The first part of such agreements is the negotiation of the restraints and the other part is the policing activity. There have been occasions when problems have arisen . . .

Senator Desruisseaux: What I want to know, Mr. Latimer, is the policing body. What authority polices these import permits in respect of overhipments?

Mr. Latimer: We are not talking about import controls in that case, not Canadian import controls. What we are talking about in this case is where another country has entered into an agreement with us to restrain shipments to a certain level. We do not have import controls at all in that case. If there is evidence of over-shipment we may

put on import controls to exercise a more precise surveillance.

Senator Desruisseaux: By "we" you mean whom?

Mr. Latimer: The Canadian Government.

Senator Molson: Before we move on, let me ask one question of the minister. Has our CIDA program got any impact on trade discussions and so on? Is that ever raised and discussed, whether that has an impact on the trade between a developing country and ourselves, whether it is helpful or a hindrance.

Hon. Mr. Jamieson: Yes, to a degree. I am sure you are aware—it may even have prompted your question—of the opposing viewpoints on the utilization of foreign aid. There are those, who at the moment I would think are in the majority, who argue that foreign aid should not be tied in the sense of being conditional and based on some kind of quid pro quo. There are others who take the absolutely opposite extreme and say that if it does not benefit Canada in some way or other we really should not be doing it at all. Then there is the more moderate, middle ground, which I am inclined to occupy, in the sense that, for example, in Indonesia it was possible for me to make considerable advances on a trade basis there by a line of credit through the Export Development Corporation, coupled with some CIDA funds that were much more long term and, in a sense, much less onerous on that country. It varies from country to country.

I think that probably CIDA's biggest contribution is, in many ways, the goodwill it generates for Canada, so that there is a tendency, as I have discovered, for countries to say, "Canada did help us out. Now we are in a position to buy something we will look to the Canadian market for it."

Senator Molson: You do see signs of appreciable goodwill?

Hon. Mr. Jamieson: Yes.

Senator Molson: And no resentment, that you have noticed?

Hon. Mr. Jamieson: Obviously, there are certain elements in, I guess, most underdeveloped countries that resent any kind of involvement. They simply anticipate that the developed country would make the funds available for their use completely on constraint. However, they are the exceptions. I think that generally speaking our foreign aid efforts are well appreciated.

Senator Smith (Colchester): I should like to ask a few questions about the search for information by virtue of requiring licences for outerwear. I am wondering if, in cases where orders are already placed with one of these countries we are concerned with, the licence is likely to be granted no matter what seems to be the probable result. How long would it be necessary to issue licences in order to obtain the necessary information?

Hon. Mr. Jamieson: I am not sure if it is possible to be precise as to timing, other than in the context I mentioned a moment ago. Obviously if there were a great flood of applications in a very limited period of time it would indicate that there was some considerable expansion of the normal level of trade, and that would clearly be a signal that some action would have to be taken.

The Chairman: If there were an onslaught, in other words?

Hon. Mr. Jamieson: An onslaught, or something of that nature.

Senator Smith (Colchester): Let us suppose that things go on as they are now. How long would it take to gather the information which would be sufficient to justify, in your opinion, the beginning of negotiations.

Hon. Mr. Jamieson: It could be very very short, senator. As I mentioned, for instance, if there are no permits that come in, obviously the situation is not changing dramatically but that is an unreal situation. If one saw a very substantial number of requests for import permits, one could decide within a matter of weeks that this was an unreasonable demand or that obviously the case had been proven with regard to the harmful effect, and we would also note the countries from which those exports were coming.

Senator Smith (Colchester): However, it seems to me that, overall, the board has found that a dangerous situation exists already. As I understand it, all that is required is to identify the specific source from which that danger comes. I am wondering for how long a period of time everybody has got to be hurt until enough licences can be applied for and dealt with, so that the danger can be pinpointed and something done about it.

Senator Beaubien: Mr. Chairman, could I put a supplementary question to the minister on that point?

Hon. Mr. Jamieson: I did not answer the senator yet, and I repeat that it can be very short. If those permits come in, in large numbers, then that is clearly proof and evidence of the injury and the damage that we have been talking about. I have already said that I am prepared, particularly in this case and in view of the recommendation of the board, to make this surveillance rigid and to make it rapid.

Senator Smith (Colchester): Thank you.

Senator Beaubien: Mr. Minister, all these goods would have to come in through an airport or seaport. Would your department not be able to know exactly what is coming in all the time, not what permits are put out but what is actually coming into the country?

Hon. Mr. Jamieson: I suppose National Revenue would have it. I am not sure, however, because of the other problem that was raised with regard to country of origin, whether you would know in all cases what the country of origin was.

Senator Beaubien: If 100,000 ski suits are coming in, you know 100,000 ski suits are coming in.

Hon. Mr. Jamieson: They may have been coming in from one country and being trans-shipped through another.

Senator Beaubien: If you are in business here, it does not matter too much which country it is coming from.

Hon. Mr. Jamieson: It does in the matter of the country with which you negotiate to ensure that they stop them.

Senator Beaubien: What I was thinking of is what is the injury to the industry in Canada. If the ski suits are pouring in, you people should know it right away. It has

got to come through a port and you should be able to have an answer.

The Chairman: The answer, senator, is that if the information is there and available right away, you have said you will act right away.

Hon. Mr. Jamieson: Then import controls can be applied.

Senator Beaubien: You should know, or you should be able to know.

Hon. Mr. Jamieson: The point I have tried to make is the point of entry or the country of origin is not necessarily the one from which the goods come into Canada.

Senator Beaubien: The important thing is they are coming into Canada. That is the important thing to business people.

Hon. Mr. Jamieson: There is no point in my telling the Chinese they cannot ship any more, if the suits are not coming from China.

The Chairman: Honourable senators, the minister has to leave at 12.15 and it is pretty close to that time now. We certainly must not delay him. The minister is not going to be available this afternoon. Therefore, it means at this

time we will adjourn the sitting until the next day to be established, which will be some time next week. If the minister is available, and if there are any further questions we want answered, we will give him lots of notice. I realize he has a busy schedule. If we decide there is more information we want from him, we may be able to put it in such a form that he can supply the answers.

Senator Cook: I think we have covered a lot of ground, and perhaps we could hear the other side, the importers and consumers, and then, if we want to impose upon the minister again for further information, we could do it at that time.

Hon. Mr. Jamieson: May I just thank you, Mr. Chairman and honourable senators. It has been enlightening. If you wish me to return after hearing your additional witnesses, I will be pleased to do so or answer your questions in writing.

I should apologize for my inability to be here this afternoon but it so happens that the Prime Minister of Belgium is here and wants to talk about trade with the European Economic Community, and I have no doubt that textiles will be one of the matters we will be discussing. Thank you very much.

The committee adjourned.



Government
Publications

FIRST SESSION—THIRTIETH PARLIAMENT

1974-75-76

THE SENATE OF CANADA

PROCEEDINGS OF THE

STANDING SENATE COMMITTEE ON

BANKING, TRADE AND COMMERCE

The Honourable SALTER A. HAYDEN, *Chairman*

Issue No. 84

WEDNESDAY, MAY 5, 1976
THURSDAY, MAY 6, 1976

First Proceedings on Bill C-58 intituled:
"An Act to amend the Income Tax Act"

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Austin	Lafond
Barrow	Laird
Beaubien	Lang
Buckwold	Macnaughton
Connolly	Manning
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
*Flynn	Smith
Haig	(Colchester)
Hayden	Sullivan
Hays	Walker—(20)

**Ex officio* members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, April 6, 1976.

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Davey, seconded by the Honourable Senator Lang, for the second reading of the Bill C-58, intituled: "An Act to amend the Income Tax Act".

After debate, and—
The question being put on the motion,
The Senate divided and the names being called they were taken down as follows:—

YEAS

The Honourable Senators

Argue	Lafond
Austin	Langlois
Benidickson	Lefrançois
Bourget	Lucier
Buckwold	Macnaughton
Cameron	McDonald
Carter	McElman
Cottreau	McGrand
Croll	Michaud
Davey	Molgat
Denis	Neiman
Duggan	Norrie
Eudes	Petten
Forsey	Riel
Fournier (de Lanaudière)	Riley
Fournier (Restigouche-Gloucester)	Robichaud
Giguère	Rowe
Godfrey	Smith (Queens-Shelburne)
Goldenberg	Sparrow
Graham	van Roggen—40.

NAYS

The Honourable Senators

Choquette	Macdonald
Cook	McIlraith
Desruisseaux	McNamara
Flynn	Phillips—9.
Grosart	

So it was resolved in the affirmative.
The Bill was then read the second time, on division.
The Honourable Senator Davey moved, seconded by

the Honourable Senator Sparrow, that the Bill be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, May 5, 1976
(109)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m.

Subject: Bill C-58—"An Act to amend the Income Tax Act".

Present: The Honourable Senators Hayden (*Chairman*), Austin, Barrow, Buckwold, Cook, Desruisseaux, Flynn, Lafond, Laird, Lang, Manning, McIlraith, Molson, Perreault, Smith (*Colchester*), Sullivan and Walker. (17)

Present, not of the Committee: The Honourable Senators McElman, Davey and Benidickson. (3)

In Attendance: Mr. R. L. duPlessis, Law Clerk and Parliamentary Counsel.

WITNESSES:

Revenue Canada—Taxation:

The Hon. J. S. "Bud" Cullen, P.C., Minister;
Mr. J. S. Hodgson, Deputy Minister; and
Mr. H. E. Garland, Assistant Deputy Minister.

Office of the Secretary of State:

The Hon. Hugh Faulkner, P.C., Minister;
Mr. André Fortin, Deputy Minister;
Mr. P. M. Roberts, Assistant Under-Secretary of State, Cultural Affairs;
Miss Judy McCann, Special Assistant;
Mr. Robert O'Reilly, Departmental Official; and
Miss Constance Udak, Departmental Official.

Following the opening statements, the Ministers and Departmental Officials were examined by the Committee in its continuing study of the said Bill.

At 12:30 p.m., the Committee adjourned.

Thursday, May 6, 1976
(110)

At 9:30 a.m. the Committee resumed its consideration of the above Bill.

Present: The Honourable Senators Hayden (*Chairman*), Austin, Barrow, Cook, Desruisseaux, Flynn, Lafond, Laird, Macnaughton, McIlraith, Smith (*Colchester*), Sullivan and Walker. (13)

Present, not of the Committee: The Honourable Senators Davey, McElman, Forsey and Smith (*Queens-Shelburne*). (4)

In Attendance: Mr. R. L. duPlessis, Law Clerk and Parliamentary Counsel.

WITNESSES:

MD Publications (Canada) Limited:

William C. Gibson, M.D., Editor;
Miss Verna Sabelle, President;
Mr. Bradley McKim, Publisher; and
Mr. Allan R. O'Brian, Counsel, Gowling & Henderson, Ottawa.

Following the opening statements, the witnesses were examined by the Committee in its continuing study of the said Bill.

At 10:40 a.m. the Committee adjourned its examination of the above witnesses and proceeded with the following:

WITNESSES:

The Department of Communications:

The Hon. Jeanne Sauvé, P.C., Minister;
Mr. M. F. Yalden, Deputy Minister;
Mr. Ken C. Stein, Policy Secretariat; and
Mr. A. M. Watt, Policy Analyst.

Following the opening statement, the Minister and Departmental Officials were examined by the Committee.

At 12:00 noon, the Committee resumed its examination of the witnesses from MD Canada Limited.

At 12:15 p.m., the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, May 5, 1976.

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-58, to amend the Income Tax Act, met this day at 9.30 a.m. to give consideration to the bill.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, we have before us this morning Bill C-58. This is the first sitting of the committee for the purpose of dealing with this bill.

The arrangement for today, as I understand it, is that Mr. Faulkner, who has an opening statement, will begin the hearing. After his opening, or even during it, he may face questions. Following Mr. Faulkner we will hear Madame Sauvé, who is appearing in connection with communications, and then we will hear Mr. Cullen, the Minister of National Revenue.

The Honourable J. S. Cullen, Minister of National Revenue: Mr. Chairman, since Mr. Faulkner's and my presentations are more or less in line, I would assume that the preferred method would be for us to deal with this together, as was the case before the House of Commons committee. It is Mr. Faulkner's bill, I am dealing with a particular section of it, and having done that, Madame Sauvé would follow on with the radio portion of the bill. I am prepared to go ahead and read my statement right now, if you wish, Mr. Chairman.

The Chairman: The only reason I mentioned this procedure was that Mr. Faulkner called me yesterday and suggested it.

Hon. Mr. Cullen: I think, personally, it is inappropriate, because our experience before the other committee was that there were questions dealing sometimes with the bill in total and sometimes with a particular amendment that I gave.

The Chairman: I take it the committee has no objections to hearing Mr. Cullen first? As a matter of fact, if Mr. Faulkner had not suggested that he would go first, and had I had any influence on the situation, I would have preferred to have Mr. Cullen first, and now we have got him.

Hon. Mr. Cullen: I am easy about it, Mr. Chairman. I am not trying to go ahead of Mr. Faulkner. In Newfoundland they call it "the Cullen bill," and in the rest of Canada they call it "the Cullen rule," so I am easy.

The Chairman: I reserve comment on what we should call the bill.

Hon. Mr. Cullen: Bill C-58 is a pretty good name.

The Chairman: Very well. Now, Mr. Cullen, are you going to make an opening statement?

Hon. Mr. Cullen: Yes, Mr. Chairman.

The Chairman: You understand that the opening statement is not sacrosanct, in the sense that you can run into questions at any moment.

Hon. Mr. Cullen: Yes, sir. Perhaps Mr. Garland had better sit beside me and handle all the tough ones. Mr. Garland is Assistant Deputy Minister, Legislation, Taxation Branch, Department of National Revenue.

Mr. Chairman, I have followed with great care and interest the Senate debates on Bill C-58 and am pleased today to have the opportunity to clarify some of the issues that have been raised by honourable senators relating particularly to the interpretation of the expression "substantially the same."

I will begin, Mr. Chairman, by going back over some of the history of this bill in an effort to put events into their proper perspective and to correct certain misstatements that have been made in this regard.

Over a year ago, in January 1975, the Secretary of State announced the government's intention to remove the special tax status enjoyed by certain foreign publications. This, I should point out, was a recommendation of two federal inquiries—the O'Leary Commission and the Special Senate Committee on the Mass Media.

By disallowing the deductibility of the expense of advertising placed in a non-Canadian newspaper or periodical—with limited exceptions including *Time* and *Reader's Digest*—the government of the day intended to help the struggling and developing Canadian periodical industry. But as it evolved, the original intent was thwarted. This was the basic reasoning behind the introduction of bill C-58—to ensure that a Canadian tax advantage goes only to Canadian periodicals.

The definition of "Canadian periodical" which appeared in the 1965 legislation, came to the fore with Mr. Faulkner's January 25 announcement. It was clear that a publication, to qualify as Canadian, had to be produced and published in Canada, be 75 per cent owned and controlled in Canada, and be free of a licence with a foreign company. The fourth criterion—that, that the contents must not be substantially the same as those of a foreign periodical—required interpretation. I think it is fair to say that estimates of the required degree of difference ran from 50 per cent to over 80 per cent, and we have heard mention of as high as 100 per cent. Though no final interpretation to clarify "not substantially the same" was made by my predecessor, the Honourable Ron Basford, he had indicated that the necessary difference would be between 60 per cent and 80 per cent.

I will diverge briefly from the evolution I am tracing for you to comment on certain related statements concerning the content rule made by *Time* in a recent editorial entitled

"Freedom and Fairness." Honourable senators have made reference to this editorial and I wish to clarify some of the statements made by *Time* editors which suggested that they were misled by departmental officials and by my predecessor. To set the record straight, Mr. Basford had assured *Time* editors that a content decision would not be less than 50 per cent but at no time did he suggest that it would be 50 per cent. *Time* refers in its editorial to a memo that spoke of 50 per cent content—this "memo" was part of a draft memo, never sent and never signed. It had been prepared with regard to what would constitute "different." The department made it clear to *Time* that the ruling on percentage was a ministerial one—not a departmental one.

To come back to my original analysis, Mr. Chairman, when I was named Minister of National Revenue, one of the first problems I addressed myself to was that of interpreting the meaning of "not substantially the same." Two factors in my decision were the following—

Senator Walker: Excuse me, when were you appointed?

Hon. Mr. Cullen: September 26, 1975. I am pretty sure that date is correct. I thought I would never forget it.

The two factors were: to give effect to the government's intention to remove special privileges or exemptions under section 19(1) of the Income Tax Act; and to ensure that a great measure of independence would be expected from a truly Canadian periodical. The original provision relating to "substantially the same" was enacted in 1965 so that Canadian publications would not have undue competition for advertisers, from "split runs" or "dressed up" versions of foreign periodicals. No periodical at that time had any difficulty in understanding that "substantially the same" meant just that. I understand that certain American magazines in fact decided at that time not to set up a Canadian edition because they could not qualify under this particular aspect of the act. That is to say, they could not have produced an edition which would have been substantially different from the American one.

My press release of October 23 stated that, in order to be considered not substantially the same as one or more issues of one or more foreign periodicals, more than 80 per cent of the contents of a Canadian periodical must be material which has not appeared in any current or prior issues of foreign publications with which the Canadian periodical had any type of continuing arrangement.

The interpretation of this particular clause in the Income Tax Act was one of thousands which I and my department are called on to make every year. However, because this decision was to have such a broad effect, I chose to seek the support of my government colleagues and thus give my interpretation the form of government policy. The charge of this interpretation being the result of some "ministerial whim" is simply unfounded. Reinforcing this is my indication personally to both *Time* and *Reader's Digest* that if this interpretation was successfully challenged in court, the government would proceed with the necessary legislation to give effect to its policy.

I might comment briefly here on the criticism that has been directed at me for this stand—and I feel particularly strongly about this because I am a lawyer and I have tremendous respect for our courts. I would make two points in particular.

My announcement that the government fully intends to support its policy with legislation was made as a courtesy to those who might decide to launch an action and spend a

considerable amount of money only to find that down the road the policy's intent would be restored by legislation.

This procedure of amending legislation to ensure that policy intent is achieved is not without precedent. If loopholes are discovered in a piece of legislation, or court decisions differ from the original intent of the legislation, further legislation is passed to give effect to the original intention. In June 1972, for example, the Department of National Revenue issued an interpretation bulletin relating to government grants to industry. In May 1974, this interpretation was challenged before the courts which decided in favour of the taxpayer. Because the court's interpretation of this pertinent section of the Income Tax Act did not reflect government policy, an amendment was proposed by a Ways and Means Motion in the November 18, 1974 budget. A subsection was subsequently enacted, with effect from November 18, 1974, but was not retroactive.

I stress that it would not be the intention to enact retroactive legislation with regard to this interpretation. I feel I would have been remiss in my responsibilities and unfair to the publishing firms in question and to their advertisers, if I had left any room for doubt as to the government's intention to enforce this policy decision.

Allow me to dwell now on certain aspects of my interpretation. As a practical matter, to provide the periodical industry with workable criteria that could be applied by their editors and be used by my staff, it was necessary to establish an arithmetic guideline. A percentage had to be stated in my interpretation to leave no doubt in the periodical industry's mind as to the intent of the government.

Indication had been given by my predecessor that the percentage to define "substantially" would be between 60 per cent and 80 per cent. I considered the two extremes; 60 per cent would have allowed foreign periodicals to qualify as Canadian, thus continuing to deduct their advertising expenses, while continuing to obtain up to 40 per cent of their editorial material at vastly reduced rates from a parent company. Any competitive equality that Canadian magazines were supposed to receive from denying this special tax privilege to foreign publications would have been annulled. Not only was this hard on Canadian periodicals, it was giving a further advantage to certain foreign publications.

I considered 80 per cent. Even allowing a publication to receive 20 per cent of its editorial material at vastly reduced rates leaves a publication with an economic advantage over its Canadian competitors. From this point of view, some suggested I consider 100 per cent.

The reference to "continuing arrangement" in the press release is vital to the understanding of our interpretation of "substantially the same." The written law is given much greater flexibility by its inclusion, yet it is an important point that is often missed.

Because the interpretation specifies material "acquired through a continuing arrangement" an issue of a Canadian magazine may consist of even 100 per cent "spot" articles taken from foreign periodicals and still be considered "Canadian", if those articles are not obtained through a "continuing arrangement"; that is, an arrangement by which a periodical has an ongoing right for availability of general material. This allows all Canadian publications access to international material which its Canadian editors feel would be of interest to its Canadian readers.

Honourable senators have made reference to Canadian content throughout the debates. Again, I stress that there

is no reference made to Canadian content either in the bill or in the interpretation of "substantially the same". Articles included in the 80 per cent different do not need to be written by a Canadian, or about Canada—they may be expanded or abridged but not taken directly from a foreign publication with which they have a continuing arrangement if they are to be counted in the 80 per cent different.

In the case of a digest, Mr. Chairman, which by definition reproduces material that has already been printed, a clarification obviously had to be made—or else this legislation might have unwittingly and unwillingly precluded the possibility of the existence of a Canadian digest. Therefore, I have indicated that in the case of a digest, material that is to count in the 80 per cent different must be chosen, edited, condensed and published here in Canada. All other criteria, with regard to licensing and ownership, of course remain unchanged.

Reader's Digest (Canada) has indicated that it will be able to qualify as a Canadian periodical and to publish in Canada. I would presume from their press release indicating this that they have been able to make the major and significant changes necessary to their organization to meet the criteria, as I have outlined them.

In closing, Mr. Chairman, I wish to stress to the honourable senators that the intent of this bill is to ensure that a Canadian tax advantage is directed at Canadian periodicals. It removes certain exemptions which have existed since 1965 and have in fact thwarted the intent of the original legislation. If this legislation seems to be directed at certain publications in particular, it is only because those particular publications were first granted exemptions—for what reasons I am not certain—and have continued to publish as foreign periodicals in Canada under that umbrella.

With regard to my part in this legislation—that of giving an interpretation to a clause in the Income Tax Act—I repeat, Mr. Chairman, that it was arrived at through much careful and earnest consideration of all the interests involved. It was arrived at by weighing many factors and by listening to the opinions of parties both for and against. I maintain, Mr. Chairman, that it is clear it is responsible and it is a necessary interpretation indeed, the only interpretation if this bill is to achieve its purpose. Thank you very much.

The Chairman: Mr. Cullen, I suppose one might state that one of the purposes of this bill is to re-direct moneys paid by Canadian advertisers for the publication of their material.

Hon. Mr. Cullen: Yes, sir; I think that would be a fair statement.

The Chairman: And I suppose it could very properly be called the methodology of economic sanctions.

Hon. Mr. Cullen: Well, I would not choose those particular words, senator.

The Chairman: Why not? What would you choose?

Hon. Mr. Cullen: I think what we are endeavouring to do here—and, again, as I said I do not wish to speak for my colleague, but the intent of the bill is to see to it that with respect to Canadian tax dollars and moneys spent for advertising, the advantage should go to a Canadian magazine, which was interpreted and described in 1965.

The Chairman: That is the primary consequence or effect of this bill, is it not, to re-direct the revenues which have been going to non-Canadian periodicals and newspapers and you, hopefully, feel that this legislation will direct them to Canadian magazines?

Hon. Mr. Cullen: Yes. I might make reference to an article which appeared in the *Globe and Mail* of April 24, which contains some indication that new magazines are, in fact, coming to the fore and that they are doing so in part as a result of advertising money that is now available that was not available to them before.

The Chairman: Well, that is hopeful, looking to the future.

Hon. Mr. Cullen: Well, I hope that that is what Parliament is all about, sir.

The Chairman: I just want to stay right with the bill. If you had taken the content as 60 per cent, I understand from your statement that some foreign magazines could have qualified as Canadian magazines.

Hon. Mr. Cullen: I think what we would have had, Mr. Chairman—

The Chairman: No; I mean the statement you made this morning.

Hon. Mr. Cullen: Yes, this is the point I am making. I think that what, in effect, would have happened, is that we would have had a hiatus Canadian magazine, because in order to compete, any magazine that started up let us say 100 per cent Canadian would, in effect, have had to make a deal with a parent company, or a foreign company, in order to get 40 per cent of its content. Then we would have had a Canadian magazine seeing the world through American, British, French or whatever country's eyes. In my opinion it would have defeated the purpose of the bill. I do not believe the Canadian magazine industry would have supported the bill and, as a matter of fact, I believe they would have condemned it, as in fact they did condemn it, out of hand, which I read prior to becoming a minister of the Crown.

The Chairman: If you had taken the 60 per cent content rule, it would not have been fully effective to accomplish what you wanted, which was to have certain foreign, non-Canadian periodicals cease operations in Canada.

Hon. Mr. Cullen: No; again this is not my bill and perhaps I should not be answering this, but my attitude is that it was not a question of getting magazines out but having them become Canadian and they would become Canadian periodicals meeting the criteria of the Canadian definition as provided for in the act. It is not a question of getting rid of, or unloading. Reader's Digest is a case in point, which became, or I understand from its press release is to become, Canadian.

The Honourable Hugh Faulkner, Secretary of State of Canada: Mr. Chairman, some of the questions you are raising go beyond the simple interpretation by the Department of National Revenue. Do you wish to have my comments now or later?

The Chairman: My questions at the moment are directed to this 60 per cent, 80 per cent and since Mr. Cullen was the minister who presented the interpretation as a solution I want him to state the purpose of it. My view is that the purpose of making it 80 per cent rather than 60 per cent,

which I believe to be a fair reading of the evidence you gave before the committee of the other place, was that 80 per cent would be effective to shut out certain publications that you did not want in here and 60 per cent might not serve the purpose.

Hon. Mr. Cullen: I would defy you to find in any of my evidence where I indicated that I was trying to shut out any magazine. I was endeavouring to give an interpretation of "not substantially the same" and, in fact, one of the magazines has not been shut out. It has seen fit to meet the requirements of the definition in the act. I doubt that you will find anywhere in my evidence that I or my colleague indicated that the main purpose was to get rid of or to move out foreign periodicals.

The Chairman: Mr. Cullen, I think a fair reading of what you said in the house and in committee would bring about the conclusion that the plan or the purpose of the legislation was to get these foreign publications out of Canada, those which were too effectively competitive against Canadian magazines.

Hon. Mr. Cullen: Well, I must say, with respect, Mr. Chairman, that I disagree with your interpretation.

The Chairman: Well, how would you put it?

Hon. Mr. Cullen: I simply indicated that the advantages of the Canadian advertisers' dollars should go to Canadian periodicals. It had been our hope, frankly, that magazines that were given special exemptions would, in fact, comply with the requirements or meet the interpretation as provided for in the act over 10 years ago. One of them has done so, or has indicated its intention. I do not know whether it has gone through the logistics to become Canadian within the meaning of the act.

The Chairman: Let us suppose that this bill passes and becomes law and there is a foreign magazine in Canada that has 60 per cent Canadian content according to your interpretation.

Hon. Mr. Cullen: Sixty per cent different; you keep using the phrase "Canadian content".

The Chairman: Then you would apply your interpretation and say it is not 80 per cent, so there is no deductibility for the advertising expenses if a Canadian advertiser buys space in such a magazine. Is that correct?

Hon. Mr. Cullen: That is correct.

The Chairman: Well, do you not think that there might be quite an issue as between whether 60 per cent is substantially the same or is not substantially the same as a similar publication in the United States, just as well as 80 per cent might be?

Hon. Mr. Cullen: It is conceivable; I reached the 80 per cent figure because I thought it left less room for doubt. I thought there would be less room for doubt in the minds of the advertisers, because in the final analysis it is the advertiser who loses the tax advantage. I thought there would be less doubt in the minds of advertisers in making that interpretation. It boils down to a question of fact, in the final analysis. What would happen is that the judge would look at it, we would maintain that it would be substantially the same, and it would boil down to a common sense interpretation. Two magazines would be put side by side and the judge would have to make a determi-

nation. We left no room for doubt that "substantial" means "substantial."

The Chairman: Had you made an assessment of *Time*, for instance, the Canadian edition and the American edition?

Hon. Mr. Cullen: Perhaps I misunderstood the purport of your question. Frankly, I feel that *Time* moved with indecent haste. It should have awaited the deliberations of the Senate before making up its mind. I think it moved with indecent haste in that area. In point of fact, *Time* will come within the determination. Let us assume they had decided to continue. We would have had to make a determination by comparing *Time* U.S. and *Time* in Canada. We will not be required to make that determination but had we been required to do so I think the 80 per cent would have made it clear to my officials, to the advertisers and to the publishers, that they had to be different and not Canadian content that had to be different.

Senator Cook: If they had met the 80 per cent, would you have moved it up?

Hon. Mr. Cullen: No, sir. As I said, it was suggested in some quarters that it should be 100 per cent, because there still is an advantage.

Senator Cook: What was the purpose of your statement, if you are not going to move it up, that you would pass legislation? You say you would have passed legislation to carry out the policy. What is the purpose of making that statement if the 80 per cent is going to stick?

Hon. Mr. Cullen: I came into this part way down the road. My personal preference would have been to have it incorporated that "not substantially the same shall be defined by regulation," and in the regulation make provision for the 80 per cent. When I spoke to the law officers of the Crown, I was advised that I would need a new way and means motion to do that. That was why I issued a press release, as a courtesy to the publishers. The second best move, in my opinion, was to extend this courtesy to the publishers and advertisers, to let them know what we meant. I also sought the backing of my Cabinet colleagues, so that if it became necessary somewhere down the road, that, in fact, could be done, but only to the 80 per cent.

The Chairman: You did not contemplate increasing the 80 per cent, even if you had to face a challenge?

Hon. Mr. Cullen: No, sir.

The Chairman: Elevating the 80 per cent to a higher figure was not a thought that you had when you made reference to the discretion you had with your fellow Cabinet ministers? The 80 per cent was going to stay at that?

Hon. Mr. Cullen: Yes.

The Chairman: You know, of course, that there are legal decisions, some in the House of Lords in England, under which "substantially the same" has been interpreted. The sum total of all the cases say that "substantially the same" cannot be determined by the application of a percentage. That is a question of fact and must be legislated, and only Parliament can do that.

Hon. Mr. Cullen: I read that. That is why I indicated in my evidence that it was, in fact, one of the criteria to be used. It would be a question of fact that the two magazines would be put down side by side and the ultimate decision

would have to be made by the judge. Had I seen fit to leave it at that and had not notified the advertisers or publishers of the fact that this was government policy, that if it was not interpreted that way legislation would be passed, I thought it would be discourteous. I thought I was doing the right thing by indicating that it was government policy, that we would not amend the legislation retroactively, and that we would, in effect, have to get a new ways and means motion to define it. I concede that it is a question of fact to be interpreted. What we are saying is that National Revenue is going to determine the 80 per cent difference, with all the other criteria—the 75 per cent, the licensing, the editorial publishing control, and so on.

The Chairman: Your test is 80 per cent, and you are going to apply that.

Hon. Mr. Cullen: To the interpretation of “not substantially the same,” yes.

The Chairman: You spoke about “not substantially the same.” The statute talks about “substantially the same.” Do you see any difference in the two expressions?

Hon. Mr. Cullen: I should probably call upon my legal counsel in this matter. I think I gained the idea on the “substantial” aspect from a case that I read in 1974—A.C. 291 at 315, which says:

“Substantial” in this connection is not the same as “not unsubstantial,” i.e., just enough to avoid the *de minimis* principle. One of the primary meanings of the word is equivalent to considerable, solid or big. It is in this sense that we speak of a substantial fortune, a substantial meal, a substantial man, a substantial argument or ground of defence.”

That is the basis on which I felt that we should give strong emphasis to the 80 per cent figure, because of the 75 per cent figure that had appeared in ownership, and because of the fact that control had to rest in Canada.

The Chairman: You are reading from the House of Lords case?

Hon. Mr. Cullen: Yes, sir.

The Chairman: That is the *Palzer and Grindling* case?

Hon. Mr. Cullen: That could be; I cannot recall.

The Chairman: On the photographic copy that I have it is on page 11. The sum total of it is that applying a percentage is a legislative act, and if you had provided in your bill that “substantially the same” be defined by regulation, you might run into a bugbear with senators in this committee who are opposed to legislation by regulation.

Hon. Mr. Cullen: It is conceivable. This is the approach I would have preferred. It might have been better, for example, to have put it in the act itself. I did not have that decision to make when I went to the law officers of the Crown. I was told that I was estopped from taking that particular approach because I needed a new ways and means motion. We might have gone to 100 per cent and put it into the act, but I needed a new ways and means motion in order to do that.

The Chairman: Had you seriously considered going to 100 per cent?

Hon. Mr. Cullen: No, I had not. One honourable senator asked whether, had we lost that 80 per cent, we would have

pushed it to 100 per cent. I said that it might have been better to give the 80 per cent figure and put it in the legislation; but it was not a decision I had to make. It was too far down the road when I became Minister of National Revenue. I was told by the law officers that I could not put it in legislation without a new ways and means motion.

The Chairman: Are there any questions?

Senator Flynn: I was wondering if the minister has thought of some of the difficulties of assessing “substantially the same”. You may give an interpretation to 60 per cent or 80 per cent or 100 per cent, but in any given edition you might come to the conclusion that it is substantially the same and the following edition is not substantially the same. Your department would have to judge every edition of every magazine to find out whether it is Canadian in content as you require it. That is quite a job.

Hon. Mr. Cullen: I might say that we would not take that approach. It would be a year-by-year approach. We would look at it on a yearly basis rather than magazine by magazine.

Senator Flynn: If one week's edition of a magazine is not substantially the same, the advertisers in that edition would be entitled to deduct their advertising costs, whereas in the following issue they might not be so entitled. Nowhere in the legislation does it say that the content will be judged over the whole year.

Hon. Mr. Cullen: That is the way in which it will be interpreted. The content aspect of “not substantially the same as” would be judged on a yearly basis.

Senator Flynn: Where do you find that in the legislation?

Hon. Mr. Cullen: It may be subject to question by the advertisers involved, if they felt short-shrifted. The determination in the final analysis would be made by the courts. The advertisers would submit the expense as a tax-deductible item and the department will either allow or disallow it, as the case may be. Assuming that the 80 per cent rule is met over the year, such deductions would be allowed.

Senator Flynn: You could be faced with a very difficult and confused situation in the enforcement of the proposed law.

Hon. Mr. Cullen: With respect, I think it is rather hypothetical. I do not think a magazine is going to publish on the borderline and run that risk. Such a course would work to the detriment of its advertisers.

I am not suggesting that anything in the interpretation of taxation laws is ever easy. I do suggest, however, that the publisher of a magazine would have to be thinking about the advertisers and would have to assure them that they would meet the criteria and would not be on the borderline. For those reasons, I am not at all certain that the problem you suggest would even arise.

Senator Flynn: Of course, an advertiser might choose not to advertise in a given magazine. There is no question about that. However, you might create a situation which would be very unfair, if not in practice, certainly in theory.

Hon. Mr. Cullen: The fact that you used the word “might” is indicative of the fact that it is hypothetical. We have pros in the department and we are often called upon to make interpretations and to give rulings.

Senator Flynn: But in this case you are not dealing with an ordinary taxpayer. In other words, where a taxpayer may incur an expense on the chance that it may or may not be allowed as a deduction, the publication of a magazine is in another realm altogether.

Senator Laird: Mr. Minister, in view of the fact that you have indicated frankly that you obtained the approval of your colleagues in cabinet for this ruling, or this policy, I do not think it is unfair to ask you whether you gave any consideration to the general proposition that this bill, regardless of its merits, constitutes another irritant that we are imposing on the Americans and that it is liable to invite retaliation.

Hon. Mr. Cullen: I had quite a good discussion with the new Ambassador of the United States to Canada, Mr. Enders. During the course of that discussion, eight subjects were raised, none of which touched on this legislation. Based on that, I would say it could not be that great an irritant. I think it was more of an irritant to the publications concerned than to the American government.

In any event, we cannot be constantly backing off, or easing off, or being careful. We have to do what we think is right for Canada. We have to define our policies as Canadians for Canada. We take many actions that are irritants to many countries, not just the United States, but we do so because they are in Canada's best interests. If we extend the fishing zone to 200 miles, that will constitute an irritant to many countries.

Senator Laird: But in an increasingly interdependent world, do we not have to give careful consideration to any move that would affect our relations with our best customer, our sole defence against aggression, and our best friends?

Hon. Mr. Cullen: Very definitely, and I think that is followed on almost every issue that comes to the fore. If I may again use the analogy of the extension of the fishing zone, we first try to negotiate such a move rather than unilaterally imposing it. In the final analysis, however, if it cannot be negotiated, we are going to have to take the decision that is in the best interests of Canada, whether or not it constitutes an irritant.

Senator Laird: Except, of course, if you continue these irritations, our relationship with our friends and neighbours will be affected. Such irritants create uncertainty. In that connection, I should like to draw your attention to an article in *Forbes* magazine of March 15. The article in question deals with the growing market for insurance against overseas political risks, and it speaks about an organization called the U.S. Government Overseas Private Investment Corporation. I should like to quote from page 41 of that article, as follows:

OPIC insures only new investment in needy countries: existing properties aren't eligible, nor are risky industrialized countries like Canada or Portugal.

This alarmed me. This, by the way, arises out of my personal feelings on the matter. Rather than being based on any academic feeling, it is based on contact after contact with Americans throughout the United States. The Americans, generally, are very leery right now, what with the Foreign Investment Review Agency, the takeover of the potash industry, non-resident tax on the purchase of land in Ontario and so forth. This aspect, I trust, was given full consideration when you considered this bill.

Hon. Mr. Cullen: First of all, I would not like Canada to be thought of as being grouped in the same category for investment as Portugal.

Senator Laird: Nor do I.

Hon. Mr. Cullen: I do not get that impression from talking with many Americans. The Americans might even appreciate the fact that this legislation will bring a sense of equality to the magazine industry in that *Newsweek* and *Time* will be treated in the same way for export into Canada.

With great respect, we endeavour to do things that will not be irritants. We try to consult with our American colleagues, and other countries with whom we do business, before taking steps which will affect them.

If I may use my own department as an example, we met with the Internal Revenue Service of the United States in an endeavour to work together on the tax saving. So we try to do things that help one another. The fewer the irritants, the better the mood, the better the atmosphere. Perhaps they do not like this decision, but it was a policy decision made by the Government of Canada to regain control of our economy.

In looking at what has happened in this country, as well as the oil industry and all other industries, there was some concern, as a result of which a positive policy decision was made to regain control of our economy. While that decision may be an irritant, it is in the best interests of Canada to see to it that we control our own economy.

With great respect, the Americans knew over a year ago that this was coming, and I again point out that a year after the introduction of this legislation, in talking to the American ambassador, the subject was not even raised.

Senator Laird: I have no special brief for *Time* or *Reader's Digest*. I must admit I should like to ask some questions of Madam Sauvé about the broadcasting aspect of this legislation.

Hon. Mr. Cullen: No pun intended.

Senator Laird: In any event, you do assure us that efforts were made by negotiation to settle matters such as this problem that we are dealing with this morning.

Hon. Mr. Cullen: Yes, senator. I think it is imperative that we work very closely. You mentioned that the United States is our greatest customer. We are its greatest customer, and we try to work these things out in advance. As I said earlier, the Americans might even have accepted the fact that we brought some measure of equality to the magazine industry in that *Newsweek* and *Playboy*, and *Time*, and so forth, will now be operating on the same basis in terms of import into Canada.

Senator Laird: Is it fair to ask you whether similar negotiations have taken place with reference to the broadcasting problem created by this bill?

Hon. Mr. Cullen: No, it is not fair to ask me that.

Senator Molson: Mr. Chairman, Mr. Cullen stated earlier that in reaching the decision about the percentage that would represent "substantially the same," 60 per cent would have permitted magazines to obtain 40 per cent content at a reduced price, giving them an advantage.

The Chairman: I think we can assume that it would be easier for magazines to achieve 60 per cent content than it would be to achieve 80 per cent content.

Mr. Molson: Yes, but I should like to ask the minister whether there was any evidence, or any indication, that had it been a figure of, say, 60 per cent, magazines would have started, or existing magazines would have changed, to obtain 40 per cent of their editorial content at the reduced price imposed with importing it holus-bolus.

The Chairman: We will have MacLean-Hunter here next Wednesday; that is Canadian.

Senator Molson: The minister said that in making his decision this was a factor.

Hon. Mr. Cullen: Yes, I did indicate it was a factor, and I was substantiated on that four days after my appointment in an article by Hugh Winsor, when they indicated that the content provisions would bring a flood of cheap articles. Mr. Hodgkinson indicated in his statement that what would happen was ostensibly what I felt would happen, on the basis of the evidence and the material I had received, that you would have this cheap material, which is all paid for. Say *Time* magazine has four or five times as much editorial content as it needs; it is all paid for through its advertising; that could be dumped on the Canadian market. I think the Canadian periodical, in the interest of survival, would have had to make a deal with *Newsweek*, *Business Week*, *World Affairs*, or something of that nature, and I do not think we would have had a truly Canadian magazine, as such. I think it would have weakened the Canadian publication.

Senator Molson: This have never happened before; there has been nothing similar in the past.

Hon. Mr. Cullen: The evidence before the House of Commons committee was to the effect that that representation was in fact made by an American magazine to a Canadian magazine, that they work together on a 60-40 basis, because at that time there was some possibility of the figure being 60 per cent.

Senator Beaubien: If a Canadian magazine wants to make a deal to get 40 or 50 per cent of its content outside the dumped material, as you call it, if they are Canadian owned can they do it?

Hon. Mr. Cullen: Not if they have a continuing arrangement or a licensing arrangement.

Senator Beaubien: They could get it without having a continuing arrangement, could they not? If it is Canadian-owned, this bill does not affect them.

Hon. Mr. Cullen: There are other criteria.

Senator Flynn: Do you have any problem along the lines of the question posed by Senator Beaubien? Do you know of any Canadian magazine, or so-called Canadian magazine, say controlled by Canadians 100 per cent, who would get a large part of their material from foreign sources, whether on a continuing or circumstantial arrangement? Do you know of any problem of that kind?

Hon. Mr. Cullen: That has not been raised yet; but then, of course, the bill is not law. I do not know whether Mr. Faulkner has heard of that, I personally have not had any representations made to me by Canadian magazines 100 per cent owned that they have that problem.

Senator Flynn: That would not be easy, I suppose, to assess, evaluate and find out; that is a problem of enforcement of the bill, which would create a lot of difficulties. Now that *Time* magazine has gone—and I agree with what the minister has said, that it would have been more decent for them to wait for a final decision of the Senate and royal assent—now they have gone and you have partly reached an agreement with *Reader's Digest*, or *Reader's Digest* has indicated they could meet the standards you have set, the only effect of this bill on periodicals will be to do away with some rather specialized publications, like *MD of Canada* for instance. Do you think you would have introduced that legislation if *Time* had decided to go before you introduced the bill?

Hon. Mr. Cullen: Again, it is not my bill. Maybe I should refer to my colleague on that.

Senator Flynn: I have no objection.

Hon. Mr. Faulkner: I deal with that in my remarks. I can deal with it now if you want.

Senator Flynn: We will wait.

Senator Smith (Colchester): Following the question Senator Laird asked—namely, whether there were some negotiations or discussions with people from the United States before this interpretation was made, which is substantially the same interpretation—I am not quite clear what the minister said, whether he indicated that there were some discussions and negotiations, or whether he was saying in general terms that it would be a good thing to negotiate about things that might irritate our neighbour.

Hon. Mr. Cullen: I think it would be fair to say that representations were made to the department a year before I became minister, and after I became minister by the magazines most directly and closely affected. They made their point and their case right in my office, as to what they felt, not only the magazines but also the publishing association and Canadian authors. I saw as many people as I could in a short space of time and went through all the material. Specifically, if you ask, did I have a discussion with the American ambassador at that time, no, I did not.

Senator Smith (Colchester): I was wondering further whether time was so pressing that the desire envisaged by the statute as necessary to accomplish could not have been implemented by degrees. That is to say, instead of saying, "We are through today," which is in effect what the bill does say, we could work out some scaling of the change in content and so on, so that the shock would not have been so rude, at least.

Hon. Mr. Cullen: My colleague did introduce the bill over a year ago; there were indications that it would come. Frankly, I think it is ten years overdue. There has been lots of time and lots of opportunity and occasion for them to move into the appropriate area.

Senator Smith (Colchester): With respect, I find that a little difficult to accept, because the very fact that these delays took place, if you call them delays, would indicate to those concerned about it that in fact nothing was going to happen anyway. After all, if you exempt someone from the provisions of the law in 1965 and do nothing about it until 1975, he would be justified in thinking that perhaps you intended to leave things as they were.

Hon. Mr. Cullen: I think the individual who thought that way would have misread the Senate investigation into

the mass media, and he would have misread the representations being made almost constantly to the government by Canadian periodicals, Canadian authors and, if you don't mind the word, Canadian nationalists.

Senator Smith (Colchester): I am sorry, I did not catch the last words.

Hon. Mr. Cullen: "Canadian nationalists." This seems to be a bad word.

Senator Smith (Colchester): The minister seems to be determined to introduce into this discussion something about Canadian nationalists and Canadian control of the Canadian economy. I do not know if we want to get involved in that. If we do, I am very willing to point out to him some things that I believe he ought to think about.

Hon. Mr. Cullen: I grew up in an International Nickel town; I know some of the benefits of multinationals and the investment of American currency. I am not knocking it. I am just saying that we should have a little bit more control, not total maybe, but certainly more than we have. Again, that is another subject. Maybe we could discuss that in your office.

Senator Smith (Colchester): I think so.

Senator Laird: Over a drink.

Hon. Mr. Cullen: Preferably over a coke—or is that another multinational?

Senator Smith (Colchester): With reference to the minister having advised that in order for him to insert this definition in the legislation he would have had to introduce a new way and means resolution, I just wonder what would be the practical difficulty of doing that, assuming for the moment that it might be better to have the definition inserted in the legislation.

Hon. Mr. Cullen: I think the problem was that the bill was well and truly launched in January; it was introduced, and an indication was given at that time. I came into the operation some time around September or October; I made my determination on October 23. My view was that it had been long delayed and the purpose could be served the way it was served, not, as I said, being privy to the bill prior to its introductions, because I was parliamentary secretary at that time to Mr. Turner, and we were dealing with other things.

Senator Smith (Colchester): The real reason was not the practical difficulty which would arise as a result of having to introduce new legislation, but rather you thought things had gone far enough and you had better get on with it?

Hon. Mr. Cullen: I suppose every political decision is a judgment, and it seemed to me, looking over the history of this particular piece of legislation, that if we meant business we should get on with it. Plenty of house time, particularly, had been taken up with the bill. I find no fault with that, I think that is what the House of Commons is all about, but it seemed to me the time was appropriate to move.

Senator McIlraith: I would draw the attention of the minister, with reference to what he said about not being privy to the bill which was introduced a year ago or more, that it has actively been before Parliament for about a year.

Hon. Mr. Cullen: Yes.

Senator McIlraith: You have made references of that sort through a considerable part of your evidence this morning in explanation of your actions. You said, of the earlier amendments, that this bill was ten years overdue. If you are not to be held accountable for certain policy decisions in the earlier stages of this bill, before you were a minister, surely you are not quite competent to make an accurate decision as to the bill that was passed ten years ago in relation to circumstances as they existed then.

Hon. Mr. Cullen: I do not like the way you throw that word "competent" around. I was elected by an 11,000 majority. They thought I was fairly competent to make decisions. My view was that this bill was long overdue.

Senator McIlraith: Perhaps I have not explained my point sufficiently. The government of the day and the Parliament of the day, ten years ago, enacted legislation with reference to the matter with which we are concerned today, in order to meet a purpose. I happened to be in that government at the time and also discussed in some detail what decision they took.

I was attempting to bring you to the point—had I put it more accurately—that your judgment that it is ten years overdue is not correct because that was not the decision ten years ago. I do not have the precise date of the earlier legislation before me but it is approximately ten years ago.

Hon. Mr. Cullen: The fact that I was not a member did not preclude me from making a judgment on that bill ten years ago, as a Liberal, when it was passed. I did not agree with it then, and I do not agree with it now.

Senator McIlraith: That may well be. That clarifies the point.

This Parliament, the Senate and the Commons, did deal with that subject, and legislation was passed to do something different than is being done today and it was done very deliberately and calculatedly, after much discussion and consideration.

Hon. Mr. Cullen: Surely that does not preclude me from objecting and saying that I believe the ultimate decision reached was wrong, whether I am a member of Parliament or a member of the Canadian public who votes and supports what I think is a pretty damn good government?

Senator McIlraith: We are still at cross-purposes. It does preclude you now bringing before us the proposition that that legislation was where the matter went wrong, that it was that legislation ten years ago, and those circumstances, because that raises another question altogether that is not germane to the bill, I suggest.

Hon. Mr. Cullen: I felt it was wrong. It was not on all fours with the recommendations of the O'Leary commission. I have read the O'Leary commission report, and I agreed with it wholeheartedly and I disagreed with the decision. There may have been good reasons for it and I am not saying there were not good reasons, but I happen to disagree with the ultimate decision.

Senator McIlraith: There may have been good reasons at that time.

Hon. Mr. Cullen: I have not heard them.

Senator McIlraith: Perhaps you should read the debates.

Hon. Mr. Cullen: I have read the debates and that is why I say it is ten years overdue.

Senator McIlraith: All right, let us read the debates. You came in November of 1975 was it? What was the date of your appointment?

Hon. Mr. Cullen: September 26.

Senator McIlraith: September 1975, and this bill was presented on May 8, 1975. There was reference made there to content and made in conjunction with the use of the words, "not substantially the same."

I will read this to you and I do not expect you to comment on your colleague's part, but I do want to ask you some questions about this subject. I am quoting the minister presenting the bill, your colleague, Mr. Faulkner from May 8, 1975 Hansard, at page 5594, where he said:

Concern has been expressed in some quarters over what is expected of publishers in terms of the amount of so-called Canadian content a periodical must contain in order to be classified as a Canadian periodical for the purposes of the Income Tax Act. I should like to make it quite clear that there is no intention of introducing, in connection with the proposed amendments, a new Canadian content rule or a new formula for measuring how substantially a magazine published in Canada must be different from another published abroad in order to qualify for the benefits of section 19 of the Income Tax Act. Such a criterion has been part of the taxation law since 1965; it is not new and it is not unique. All periodicals published in Canada are bound by the "not substantially the same" clause in section 19 and have been for nearly ten years.

At the date that statement was made, what was the percentage figure used in this connection?

Hon. Mr. Cullen: As I said, not being privy I can only go on the evidence I have since read, which is to the effect that the 80 per cent figure was thought to be the figure. Again, this is by Mr. Hodgkinson, whose evidence you have probably read, when he testified before the committee. I think it is fair to say that I did say in my statement that there have been all kinds of percentages bandied about, from 50 per cent to 100 per cent. My view though is that it was clearly understood that 80 per cent was the figure.

Senator McIlraith: Right back through the ten-year period?

Hon. Mr. Cullen: I am just going to substantiate this. Mr. Hodgkinson said, when speaking to the Standing Committee on Broadcasting, Films and Assistance to the Arts, at page 25:68:

The answer to that question is no. If we said what we wanted was 100 per cent, we have come a long way too. We have come down to 80 per cent, because that is what the legislation was at the beginning.

You say that that will not work, but that has kept all of the other magazines from coming into Canada with Canadian editions. There were seven in 1961, 62, 63 before that legislation, that wanted to come in. They decided they would not come in because it was interpreted as 80. If you lower that you are going to have quite a few come in.

Therefore, it was clearly understood by the industry that the 80 per cent figure was meant.

Senator McIlraith: Where did the 50 per cent and the 60 per cent come in that were talked about in the early stages of this bill, when it was on the Order Paper for quite a long time? Where did those figures which were bandied about come from, the 50 per cent and 60 per cent?

Hon. Mr. Cullen: As I indicated, there were representations made by many people. Time magazine put together a magazine they wanted to have National Revenue look at. They were talking at that time about format, what would be different and what would be the same. There was some talk at that time that it would have to be at least 50 per cent.

Then I think Mr. Basford, my predecessor, had indicated—I am not sure if it was in a speech or in response to an interview with Mr. Winsor of the *Globe and Mail*—that it was somewhere between 60 per cent and 80 per cent. I believe the 50 per cent came from Time and the 60 per cent to 80 per cent from my predecessor. Again, I am not certain whether that was in a speech or in response to an interview.

Senator McIlraith: I want to get the progress of this. The final determination of the 80 per cent in a comparatively absolute form came in your time as minister, in other words, refining it to 80 per cent. You do not talk about 75 per cent or 85 per cent or 78 per cent; you talk about 80 per cent in absolute terms.

Hon. Mr. Cullen: So has my predecessor talked about this.

Senator McIlraith: Hold on just a minute; he talked about other figures too. What I want to get at is that the absolute precise figure of 80 per cent is yours, in absolute terms, is it not? It was not put out in the form of—what was the term?

Hon. Mr. Cullen: It must not be substantially the same.

Senator McIlraith: Yes, and that had been left on its own, had it not, for interpretation?

Hon. Mr. Cullen: Mr. Basford had indicated, prior to my coming into the portfolio, that he would be making an interpretation before the committee, but the bill was held up on second reading in the house, so he never made his interpretation. Therefore, I think out of that grew the speculation, and as late as September 30, 1975 there was still speculation that the figure must be 60 per cent.

Senator McIlraith: He had indicated that he would make his interpretation at the committee stage—that he "would" make his interpretation. I think that is correct, at least as I understand it, indicating that it was not an interpretation which had been made in an absolute form up to that point. That is what I am trying to get at.

Hon. Mr. Cullen: I do not know that it had been made, senator, but certainly it had been understood by the industry. And that was the point that was made by one of the witnesses before the house committee on broadcasting, films and assistance to the arts.

Senator McIlraith: What is that reference?

Hon. Mr. Cullen: Mr. Hodgkinson was giving evidence at page 25:11, 1975. I am sorry I only have the photostatic copy.

Senator McIlraith: It is all right. I have the evidence. Thank you. Perhaps it is not for you, but I am concerned

here with the ministerial commitment in May. That is perhaps for Mr. Faulkner.

Senator Manning: Mr. Chairman, I should like to ask Mr. Cullen if he could give a little further clarification of the rationale behind including the matter of content as one of the criteria for determining what is to be recognized as a Canadian magazine. I think that the Canadian people have no difficulty in understanding that if a company or people from another country want to come into Canada in the publishing business it is reasonable to require that they be incorporated under Canadian law, that the majority ownership be in the hands of Canadian citizens and that the management be in the hands of Canadian citizens. Normally we accept that criterion as constituting a Canadian enterprise. In this case you have added this matter of the content of a publication. I think that is the factor which a great many people find offensive in this legislation, because of the view that it is not necessary as part of the criteria and, secondly, that it is not the business of any government to dictate what the content of publications should be. I wonder if you could clarify your rationale for including content in this picture at all.

Hon. Mr. Cullen: Again this is probably a question more properly answered by my colleague, but this requirement is contained in the legislation which was passed in 1965. My role in this was simply interpreting that. Whether that was right or wrong in 1965, which was passed by another government with a particular senator here in the Cabinet at that time, it was felt to be a necessary part of the definition. So in my role I am really not qualified to answer that. My role as Minister of National Revenue is simply to define those words. Maybe that question would be more properly put to my colleague when he is giving evidence.

Senator Manning: In your statement, in answer to a couple of questions, Mr. Cullen, if I understood you correctly, you did make two comments which bear on this: First, I believe you said that if companies incorporated in Canada and Canadian-owned—meeting all of those criteria—by arrangement with a parent company, or a company in another country under a permit arrangement, could get a large part of their material for publication, this would constitute an economic advantage to them which would mean that Canadian publishers could not compete. In other words, that is an economic factor.

Hon. Mr. Cullen: That is right. It would make it more difficult.

Senator Manning: The other comment I believe you made was something to the effect that if you permitted that you would have a volume of material coming in, say, from the United States which would mean the Canadian readers would still be viewing the world or getting their information through the eyes of, let us say, American writers or publishers. I do not know whether you can enlarge on those two things, but to me this is puzzling, because the so-called economic advantage of having an arrangement with a company in another country is a common thing across the board in industry. For example, a company manufacturing a product in Canada will secure from abroad some of the component parts for that product under an arrangement or permit, or whatever it is, which we consider generally to be a Canadian advantage because it permits them to put the product on the market at a more advantageous rate or permits a better quality product to be put on the market than would otherwise be possible. So I

have difficulty seeing why the same should not hold true in this field.

On the matter of the concern that Canadians would be viewing the world through the eyes of other writers, if that is a fault—and I do not think it is because I think the individual person is quite capable of making his own assessment of what he reads—but if that is a valid criticism, then, by precluding this material from coming in from other countries and appearing in Canadian publications, are we not then trying to introduce the same principle in reverse by hoping to have Canadians gain their knowledge only through the eyes of Canadian publishers? Which, I submit, is just as much a disadvantage as gaining it through the eyes of the American publishers or British publishers or French publishers or anyone else. The whole principle is wrong.

Hon. Mr. Cullen: First of all, in dealing with bringing the material in from the United States, it is one thing to be talking about widgets and it is another thing to be talking about ideas. This is really an apple-orange situation.

With respect to getting new ideas, there is nothing to stop American, British, and French or any other ideas from coming into this country. There is no attempt being made at censorship as such. I do still read Time magazine; I still read Newsweek and Punch. I try to get my views and ideas from all over. I do not think there is any suggestion to the contrary. Based on the Canadian magazines I have seen, I think we are helping the Canadian publishing industry by having Canadian views expressed and having editorial decisions being made in Canada, which would be very, very difficult if we were to allow this dumping aspect. But again this is really, I think, more appropriately a question for my colleague.

Senator Cook: Mr. Chairman, I had wanted to ask a supplementary with respect to the 80 per cent rule which Mr. Cullen spoke to a few moments ago. Mr. Cullen said he feels, from the evidence, that this was pretty generally understood by the industry, and yet he says in his evidence:

Mr. Basford had assured Time editors that a content decision would not be less than 50 per cent but at no time did he suggest that it would be 50 per cent. Time refers in its editorial to a memo that spoke of 50 per cent content—this "memo" was part of a draft memo, never sent and never signed.

But, of course, it was prepared. Surely Mr. Cullen would agree that the department did make a bit of a flip-flop when it went from talking about 50 per cent up to 80 per cent.

Hon. Mr. Cullen: I disagree with that, because at that time they were not talking about content; they were talking about format and what would be considered different and what would be considered the same. Frankly, there was never any indication to Time magazine that 50 per cent would be the figure. In point of fact, I would not be a bit surprised if evidence subsequently came out that they apologized to our officials for indicating that they had that interpretation in mind.

Senator Cook: I don't mean to cross-question you, but it says here, on page 3 of your remarks for today, that "Mr. Basford had assured Time editors that a content decision would not be less than 50 per cent." It says "content," and that is on page 3.

Hon. Mr. Cullen: Yes. Well, I am satisfied that that was the bare minimum down below which it would not go, but we did not say it would be exactly 50 per cent.

The Chairman: There is a big difference between saying, "not exactly 50 per cent," and hitting it up as high as 80 per cent.

Hon. Mr. Cullen: Well, it is my view that there was never any interpretation given that it would be under 50 per cent. As a matter of fact, no interpretation was given until the press release, but there was all kinds of speculation.

The Chairman: Now, in talking about this unsigned memorandum, I expect that there will be evidence adduced here to indicate that it was the subject matter of discussion with people in your department.

Hon. Mr. Cullen: Mr. Garland might want to comment on that, because he sat in on these meetings.

Mr. H. E. Garland, Assistant Deputy Minister, Legislation, Taxation Branch, Department of National Revenue: That memo arose in this manner, sir. *Time* presented a request for an advance ruling. Under our scheme advance rulings are accepted, when we issue them, as binding on both parties. The advance ruling was based on a comparison of a mock-up they made of a proposed type of Canadian magazine, as compared to the U.S. edition of *Time* of the same date. They completed this mock-up, and we examined it in conjunction with them. We determined what our view was of the percentage difference as compared to the U.S. edition at the same time. My recollection is that it was something like 42 or 43 per cent different.

We compared, at that time, a memo that was addressed to the minister, for the deputy's signature, to inform him of the status of our examination. The memo was never sent. He called us for a meeting, and I think *Time* officials attended that meeting, at which they asked for a ruling and discussed this particular mock-up that we examined.

Subsequently, to complete the story, *Time* withdrew their advance ruling request based on the mock-up, and submitted an amended advance ruling request, based on a magazine which was at least 50 per cent different from the U.S. magazine. In the course of our discussions with them, as to what constituted different material, naturally the conversation revolved around the 50 per cent, but throughout those conversations it was quite clear, as between ourselves and the *Time* representatives, that the quantitative figure to be put in there had not been decided, and that this was a matter that was going to be decided by ministers.

The Chairman: In your study of the mock-up, comparing it with the U.S. edition of approximately the same date, and in equating one with the other, did you have regard to the quality of the material in the Canadian edition, as against the quality of the material in the American one?

Mr. Garland: No, sir. We were just trying to determine whether the material in the mock-up Canadian edition was the same as, or substantially the same as, the similar material in the U.S. edition.

The Chairman: What did you do? Did you have some person sit beside you and have them read the American copy while you followed the Canadian copy, to see if they were substantially the same?

Mr. Garland: We had both editions. We had two people put the material side by side for the same subject matter and determine whether or not, in their view, this was the same

Senator Davey: Mr. Minister, when did Bill C-58 receive third reading in the other place?

Hon. Mr. Cullen: I do not know the date of that.

Senator Davey: I am informed it was February 25, 1976. Your press release relating to the 80 per cent figure was when?

Hon. Mr. Cullen: On October 23, I believe, 1975.

Senator Davey: So your statement had been public for five months before the bill was passed in the other place, is that correct?

Hon. Mr. Cullen: Yes. I believe my interpretation was made, but it had not gone to the committee.

Senator Davey: The original provision relating to "not substantially the same" was enacted in 1965. Would you know if any representations have been made to change that legislation, or to ask for interpretations of "not substantially the same" between 1965 and now, prior to your becoming the minister?

Hon. Mr. Cullen: No. There has only been the evidence given to the committee, that apparently there had been discussions between magazine people, or publications people, and they had indicated that the 80 per cent figure was there, and on that basis they could not move into the Canadian market.

Senator Davey: Perhaps this is really a question for Mr. Faulkner, but I will put it to you anyway. Is it a fair observation that this 1965 legislation, and the provision relating to "not substantially the same", did impede the flow of American publications with so-called Canadian editions into Canada?

Hon. Mr. Cullen: That is and was the evidence before the committee in the House of Commons.

Senator Davey: I am also wondering what representations you have received from advertisers since your statement of October 23, 1975.

Hon. Mr. Cullen: I do not believe there have been any.

Senator Davey: No advertisers have made representations since you made your statement?

Hon. Mr. Cullen: Certainly not to me personally.

Senator Davey: One of the concerns which some senators have, and which the chairman expressed earlier, is the concern about legislation by regulation. I wonder if you would like to make a general comment about that concern.

Hon. Mr. Cullen: I gather that the senator shares the concern of many of us, that a regulation is something that can be changed primarily by cabinet, rather than having to go before the whole house, and it was a matter of concern to him that we would adopt this particular route. This is something that is hypothetical to me, since I was precluded from deciding whether we would put it into the form of legislation rather than that of regulation, because of the advice I received from the law officers of the Crown. Probably, to alleviate the concern of some senators that we

would move the figure from 80 up to another figure, it would have been better to have it in the form of legislation.

Senator Davey: You frequently offer interpretations, do you not?

Hon. Mr. Cullen: Yes. As I said, about a thousand a year.

Senator Davey: I wonder if you could explain to the members of the committee, Mr. Minister, the regulations relating to American magazines. What are the hindrances on American publications coming into the country?

Hon. Mr. Cullen: There are, of course, no hindrances to their coming in, short of one of the sad aspects my department has to deal with, which is pornography and how to define it. If you could take it out of my department and give it to someone else I would be very happy, but I think short of the pornography aspect at the customs level, there are no restrictions.

Senator Davey: There is a complete flow of American magazines into Canada; there is no hindrance at all?

Hon. Mr. Cullen: Correct.

Senator Davey: Including French and British, and other magazines?

Senator Flynn: Pornography is not a very big problem to your department nowadays, is it?

Hon. Mr. Cullen: If you talk to—and I hesitate to use this expression—the guys in charge of pornography, you will find that they feel it is a problem, and that it is becoming a greater problem, because some of the books or magazines that we allow into the country are sometimes, under provincial censorship laws or municipal by-laws . . .

Senator Flynn: I know, but it is your department.

Hon. Mr. Cullen: My department is Customs and Excise, and we do have to make determinations with regard to what is or is not pornography.

Senator Flynn: You do not have to do that very often.

Hon. Mr. Cullen: I do not know how many determinations are made in a year. That is one of the things I have not addressed myself to, senator.

Senator McIlraith: Mr. Minister, would you clarify one smaller point for me? This is with regard to "not substantially the same", or trying to find the difference. If you have an article written by a Canadian, there being no question about his citizenship and full-time residence, so that we are not getting wrong eyes to see these things through, and it is sold to a so-called Canadian edition of an American magazine, or one published on both sides of the border, that article, if it is identical in each publication, would not be interpreted as not being substantially the same. What is harmful to Canadians reading that article? Or what is harmful to the other segments of the periodical press in reading that article?

Hon. Mr. Cullen: I am not sure that I follow your point, from the standpoint of the 80 per cent interpretation rule. I am not suggesting that anything that is written is harmful.

Senator McIlraith: Let me draw your attention to a particular article. You will find that the story of Bobby Jones was written up by a Canadian friend of his and published in a not substantially different form—published

in the same form in both the United States publication and the Canadian publication. If they had done that with all their items in the publication, instead of just one, then they would have violated the 80 per cent rule and they would not be eligible for the tax deduction because they do not meet the criteria in this bill. So I am sure you see the lack of logic involved in using an artificial rule like the "not substantially the same" rule, if Canadian writers become so proficient and so much desired in the United States that the magazine chooses to buy all their articles and publish them. Don't you see that in the case of *Reader's Digest* they could put themselves out of business?

Mr. Garland: Well, senator, the law provides that it is a comparison of the contents of the Canadian publication with one or more issues of one or more foreign publications. It is a broad comparison; it is so broad that it is impractical. I say that because in law if we applied the 100 per cent rule we would have to read every magazine whether published in Arabia or Pakistan or in any other country because of the wording used—"foreign publication." So, to make it more practical, we have limited it in the minister's interpretation to comparison with those sources with which the Canadian periodical would have an arrangement for material, so that if a Canadian writer sold an article to X magazine in the United States, it could be purchased and printed by another magazine in Canada and not be counted in the "similar content" rule provided that it was obtained not where there was a relationship of a Canadian periodical with the vendor American periodical.

Senator McIlraith: Well, let us take the *Reader's Digest* article to which I referred. Suppose that our other writers are successful in quantity, then, because we have a good export in writing skill and our professional writers are earning a great deal of money, you are simply going to put them out of business. Surely that is not logical. Let us take the publication *MD of Canada*. We have not talked about it today yet, but a lot of the Canadian content appears there. It is under the control of Canadian editors, but it is U.S. owned. Now, assuming it comes under Canadian ownership, is it to go out of business because the Canadians are in this case exporting articles to the United States? Because this is what you are doing in this bill.

Mr. Garland: So far as *MD of Canada* is concerned, provided it buys articles and publishes them in Canada which were not obtained from *MD* magazine in the United States to the extent of more than 20 per cent, it can carry on and acquire articles from Canadian writers and not encounter any content problem. But I believe the problem with *MD of Canada* is one of the other factors—ownership.

Senator McIlraith: You have used now, in giving me the answer, the expression "not obtained from the United States magazine," but the wording in the legislation we have been discussing is "not substantially the same as" and that is a very different thing. So it is the similarity of the article that counts. In other words, the success of Canadian medical writers and scientists and so on—that is the criteria for putting that magazine out of business, or one of the criteria. Do you not consider that to be a dangerous thing? Surely, it is bad legislation?

Mr. Garland: This would only occur, senator, where the Canadian writer sold only to the American publication, and then the Canadian publication bought from that American publication. But if a Canadian writer sold directly to a Canadian publication there would be no content problem.

Senator McIlraith: No. I respectfully suggest that the legislation says "not substantially the same."

The Chairman: No, it says "substantially the same".

Senator McIlraith: Well, yes, "substantially the same," but the point I was making is that it does not introduce the element of "obtained from" at all. Because here the publication and the editorial control is in Canada, but yet you are penalizing them.

Mr. Garland: We put a beneficial ruling, senator. The minister has applied a broader interpretation to permit just what you are talking about, in that he said he will only make the comparison of the Canadian publication to an American publication where there is some relationship for access.

Senator McIlraith: There is undoubtedly a relationship for access between the American and the Canadian *MD* publications, but surely we should not be legislating against Canadian writers merely because we are trying to deal with one or two magazines and trying to prevent United States publications from coming in here in competition with Canadian periodicals, which is another problem altogether.

Hon. Mr. Faulkner: Mr. Chairman, I do not know if you want me to comment on this now, but I really think that misrepresents the intent and, in fact, the effect of the bill. The basic question we are discussing here is this: "Where does the tax privilege go?"

Senator McIlraith: Exactly, but we are discussing where the tax money goes in order to achieve a purpose. You have spoken about the intent of the bill, but I do not think it is either a mistake or a misrepresentation to suggest that the bill may do something other than what is intended. That is what I was seeking to bring about at this point in the discussion when we used the example of *MD of Canada*, or the example where if you had enough writers for *Reader's Digest* you might be doing something, quite innocently if you like, contrary to the intent or the purpose you had in mind when you brought forward this legislation. That is the point on which I was seeking help from the officials.

The Chairman: It certainly appears that this bill was not designed to produce tax revenue: it was designed for the purpose of assisting the Canadian magazine industry, and to use the dollars as weapons. Therefore, in my definition, it would become an economic sanction.

Senator McIlraith: The whole thrust of my attitude on it lies in the fact that I want to assist the periodical press, but I think this is quite a wrong method of doing it. This legislation may in fact do other harmful things to the Canadian economy and to Canadian society. I realize that that means a difference of opinion.

The Chairman: I can tell you, senator, that the chairman does not think you made any misrepresentation.

Senator Flynn: Mr. Chairman, I think it would be more practical if the Secretary of State were to make his statement now, because we will be directing questions that are really his concern, and I think it would be much easier for us if we could put questions to which either Mr. Cullen or Mr. Faulkner could reply because, after all, the intent of the bill is very important. So, for that reason, I would suggest that Mr. Faulkner make his statement now. We would, of course, want Mr. Cullen to stay.

The Chairman: This is the trouble with this bill. At this time we are finding it rather difficult to keep the two parts or two sections of the bill separate and distinct. I notice that Mr. Faulkner is itching to get in and defend the bill, so I think we should give him the opportunity now.

Hon. Senators: Agreed.

Hon. Mr. Faulkner: Thank you, Mr. Chairman.

Honourable senators, I hope you will bear with me, as the statement I have drafted is long but I hope you will find it relevant. It attempts to approach the problem suggested by Senator Flynn, namely giving you a broader picture of the context within which the bill was put forward. I followed the Senate debate on Bill C-58 fairly closely and today I would like to outline for you the rationale for the bill and to respond to specific criticisms made by certain senators during the debate on second reading. I shall restrict myself basically to the periodicals section of the bill, since Madame Sauvé will speak tomorrow on the broadcast portion. She has officials present. Of course, Mr. Cullen has dealt with questions arising out of the interpretation of the Income Tax Act.

In general terms I think you would agree that an overall cultural objective for the Canadian government should be to assist Canadians to contribute to the intellectual and artistic expression of our values and our preoccupations as Canadians. The federal government has historically played a significant leadership role in the cultural area. The creation of the NFB and the CBC made the federal government leaders in broadcasting and film. We continue to be so today—complemented by the important and encouraging growth of the private sector. Following the Massey Commission in 1952, new federal support for the Canadian artist and scholar became possible through the instrument of the Canada Council. The total cultural budget of the Department of the Secretary of State and affiliated agencies has increased from \$234.9 million in 1970-71 to \$469.1 million in 1975-76.

In some industries, such as publishing and broadcasting the government has also stressed the importance of Canadian ownership, a policy which parallels the concern for Canadian ownership in more economically sensitive industries such as banking.

Despite these policies, the growth and development of Canadian cultural industries is far from guaranteed. Our proximity to the U.S., and its influence on our cultural industries are realities which we have to deal with if this country is to maintain and develop its unique characteristics. But first let me briefly describe the overall problem by putting C-58 in the broader context of support for Canadian cultural expression. In film, for example, Canadians spend about \$200 million annually on admissions to films, the great majority of which are foreign-produced. The inter-relationship between the foreign producer, exhibitor, and distributor have historically all but blocked the success of the Canadian produced feature film. Out of a \$430 million dollar market in Canada for books, a full two-thirds are imported. In publishing, the branch plant publisher, the foreign-controlled newsstand and mail order distribution system provide serious competition barriers to Canadian publications. A further \$35 to \$40 million is spent to purchase TV programs from the U.S. Public and private broadcasters alike have a strong economic incentive to pay a fraction of the original cost of an American program rather than underwriting the entire production cost of an alternative Canadian program.

In the periodical industry, the Canadian market share has always been small. In percentage terms it was only 11 per cent in 1974, and only five per cent of newsstand sales. One of the key economic impediments in this industry—to which C-58 is addressed—is the “split run” edition of foreign periodicals.

The conclusion I have reached in examining these industries is that the principal barriers to greater Canadian cultural expression are largely to be found in the economics of each cultural industry.

That is a very important basic statement in this overall brief.

Senator Flynn: It remains to be proven.

Hon. Mr. Faulkner: It remains to be proven and it remains to be argued, but it is fundamental in the thrust behind Bill C-58 and others. Although each is different, the common thread is the cheap access to high-cost products of the United States—products which are available at a fraction of their original costs. My strategy, then, has been to develop policies which deal with the economic aspect of the cultural industries to make them more viable in Canada.

The charge of “narrow, negative, nationalism” has been raised by one senator, but I find it hard to take this attitude seriously. We have one of the most open cultural markets in the world, and in fact are the Americans’ best cultural customer. Let me give you some United States periodical circulation figures for Canada: *National Geographic*: 669,000; *Playboy*: 356,000; *T.V. Guide*: 928,000; *Family Circle*: 523,000; *Good Housekeeping*: 200,000. If a Canadian government ever takes measures to curtail or prohibit the entry and circulation of foreign cultural products, then I would agree that this would constitute a totally unacceptable form of cultural nationalism. However, it is ludicrous to claim that the government is trying to do this, given this tremendous cultural spillover from the United States.

I think we have to be realistic about the economic realities of the thin, regional market of Canada compared to the U.S. We will always be a net importer of cultural products; we will always be open, outward looking in cultural terms. Our challenge is to continue to develop cultural strategies which lead to significant—rather than simply peripheral—market shares for Canadian books, magazines, films, television, and other cultural industries.

Other nations have carefully looked after their own cultural expression in critical periods of their history. Western European countries have had far more stringent barriers to cultural imports in some areas than in Canada. The O’Leary Commission documented the protectionist measures of several European countries, such as the use of tariffs imposed on the circulation of periodicals from other countries. It is partly by this restrictive method, for example, that Austria and Switzerland protect their periodicals industry from the flood of German periodicals.

In the case of Switzerland, about 72 per cent of the population is German speaking and there is obviously a ready market for German periodicals from abroad. The overflow from West Germany is quite significant. To deal with this problem, all the large distributors of foreign periodicals in Switzerland are Swiss owned and a system of controls has been established to ensure that a certain amount of display, sales and promotion for domestic publications is maintained. Furthermore, a special tax is levied on foreign newspapers appearing once or more a week, on

periodical supplements printed abroad, on newspapers, publications and periodicals appearing under a Swiss title...

The Chairman: Mr. Faulkner, this special tax is a tax on what, profit?

Hon. Mr. Faulkner: No, it is on the individual product.

Senator Flynn: Each copy.

The Chairman: It is on the product?

Hon. Mr. Faulkner: On the product.

The Chairman: Somewhat similar to the excise tax in the 1956 legislation in Canada?

Hon. Mr. Faulkner: Yes.

The Chairman: You will agree that there is a great difference between an excise tax on the product and the denial of deductibility to the Canadian advertiser.

Hon. Mr. Faulkner: There is certainly a difference, yes.

The Chairman: If the word “certain” makes you feel any better using it, all right, we will take it. However, I would say that there are obvious differences, and material differences.

Hon. Mr. Faulkner: We could argue that point when I conclude my statement, if that is agreeable.

Furthermore, a special tax is levied on foreign newspapers appearing once or more a week, on periodical supplements printed abroad, on newspapers, publications and periodicals appearing under a Swiss title but entirely or partially printed abroad. As a result of these measures, as well as other forms of assistance to cultural and small circulation periodicals, Switzerland boasts a healthy and growing periodical industry.

Austria like Switzerland is faced with a heavy overflow of foreign German language periodicals, ironically many of them originating not only in West Germany but in Switzerland as well. However, most of this overflow is not adapted to Austrian tastes and is not used to support advertising directed to Austrian consumers. As in Switzerland, virtually all foreign periodicals are distributed by domestically owned firms, and foreign periodicals are considerably more expensive than domestic periodicals. This price difference can largely be accounted for by a complex system of taxes and levies which discriminates against foreign periodicals which are imported and then distributed and retailed by non-Austrian owned firms. The domestic product handled exclusively by Austrian controlled firms enjoys a distribution system free of any such charges. Thus the Austrian periodical press is strong and developing despite a heavy German overflow.

The O’Leary commission concluded that no other country was subject to such extensive overflow circulation and “split run” edition as Canada, and that Canada appeared to have “less restriction and regulation of expression, less assistance, and less protection of domestic publishing than nearly all the others.”

Even the U.S.A. has not hesitated to resort to far more protectionist measures in some cultural areas than exist in Canada. The example brought out by Senator McElman, the “manufacturing clause” in the American copyright law, is a case in point. An American or U.S. resident is only protected by copyright law if his works are published in

the U.S. He can only import a maximum of 1,500 copies without losing copyright protection.

The history of the manufacturing clause, in fact, provides a highly relevant lesson to Canada. It was established in the U.S. in 1891, at a time when the American publishing industry was struggling against British competition. Until 1952, when the law was modified to apply to Americans or U.S. residents only, any foreign publications imported in quantity to the U.S. had no copyright protection. This provision helped the American publishing industry successfully resist foreign competition while its own industry grew and prospered.

Let me now turn to comments more specific to C-58. The bill is the outgrowth of 45 years of efforts by successive Canadian governments to create the conditions by which the Canadian periodical press could flourish and fully play its role in the cultural and intellectual life of the country. It is a follow-up to the 1965 tax amendment, specifically to remove the exemption made at that time for selected periodicals. In addition to *Time* and *Reader's Digest* there are the four newspapers of the Liverpool Group, and the periodicals classified by section 19(4): the *Christian Science Monitor*, *MD of Canada*, *Medical Aspects of Human Sexuality*, *Modern Medicine of Canada*, and *Médecine moderne du Canada*.

Prior to the 1965 law, several U.S. periodicals had established subsidiary operations and "split run" editions in this country. The 1965 tax law amendment deterred others poised to set up operations in Canada. Certain sectors of the Canadian periodicals industry flourished as a result—specifically the business and trade periodicals—while the consumer magazines continued to suffer from the economic competition of, principally, two foreign periodicals classified as Canadian. Those two were *Time* and *Reader's Digest* which aided by their exempt status substantially increased their share of advertising revenue.

The situation was decried in a Special Senate Committee on the Mass Media in 1970, led by Senator Davey, which recommended that the exemptions awarded to these magazines be removed. By 1974, *Time* and *Reader's Digest* were siphoning off over one-half of Canadian advertising revenues of 13 major consumer magazines in Canada, protected by a law designed to stimulate the growth and development of the bona fide Canadian periodical industry.

Following the passage of C-58, there should be a more positive restructuring of the Canadian periodicals industry. The government certainly does not intend to favour one periodical over another, but the law, until C-58, favoured a few clearly foreign periodicals. Nothing is all good or all bad. Bill C-58 will only help equalize the competitive forces at play in that industry—I think that is important to stress: will only help equalize the competitive forces at play in that industry—and now only the talent, imagination, and skills of journalists, editors, and entrepreneurs will determine whether a periodical succeeds in the Canadian marketplace, not a contractual link to a parent company for editorial material at negligible cost.

In a sense, the Senate is fortunate to be able to examine C-58 and its impact on the periodicals industry with a certain amount of hindsight. The results of the first five months of application of the bill are hardly conclusive, but they do indicate that advertising revenue in Canadian periodicals shows some signs of redistribution. In fact, the President of the Magazine Association of Canada, representing the 17 largest paid-circulation magazines in

Canada, including *Time* and *Reader's Digest*, was recently quoted as follows:

The next five years will see the most dramatic change in revenues in the history of Canadian magazines.

Mr. Crosbie estimates that the present 2.4 per cent of the total advertising dollar held by consumer magazines is conservative and that the market share will double for magazines over the next five years.

If *Time* remains in Canada as a foreign publication, a *Financial Post* guess is that *Time* will lose half its former advertising revenue. This revenue will not likely be directed to any one specific magazine, but rather to a broad range of Canadian periodicals, as FP paraphrases Crosbie:

The Canadian consumer magazines will feel the greatest afterglow of the C-58 fallout.

I am not sure that I like the analogy.

The impact of C-58 on the roughly \$20 million now spent on border stations is more speculative at this time, since that portion of C-58 is not in force. However, one of the reasons for the bullish predictions of the periodicals industry is that, although most of the TV ad revenue for border stations is expected to be redirected to Canadian stations, a small portion of it could find its way into Canadian periodicals. That, I might add, is largely as a result of the degree of fragmentation that is taking place in the broadcasting industry.

The Chairman: They are in the field of speculation in that.

Hon. Mr. Faulkner: That is right. I do not want to get too far afield on that, Mr. Chairman.

The Chairman: Would the government act on speculation?

Hon. Mr. Faulkner: Oh, sometimes!

The 1965 exemptions to *Time* created an unnatural situation in consumer magazines in Canada. In the U.S. *Newsweek* provided aggressive competition to *Time*, surpassing it in circulation, while in Canada *Time* had a stranglehold on the newsmagazine market. Its circulation was less than 10 per cent of *Time* in Canada. Whether *Maclean's*, or some alternative magazine succeeds or fails to develop a viable newsmagazine in Canada will now be up to the organizational and entrepreneurial efforts of Canadians.

During the second reading debates, Senator Rowe aptly drew attention to the situation of *Chatelaine*. When faced with competition on an equal footing against *McCall's Ladies' Home Journal*, et cetera, *Chatelaine* has shown that Canadians can produce an equally good product. If the exempt status of the foreign periodicals is removed—the objective of C-58—the economic environment will become more equitable for Canadian periodicals.

Senator Keith Laird (Acting Chairman) in the Chair.

Hon. Mr. Faulkner: The Canadian Periodical Publishers' Association stated in their discussions with the Commons standing committee that collectively its members could reach an audience for an advertiser on a cost per 1,000 basis that would be competitive with that of any foreign consumer magazine. All they ask for is an opportunity to compete on an equal basis. I might add that the association's membership has already been approached by many

Canadian advertisers and agencies who now wish to reach their respective markets through a combination of Canadian publications. This new awareness of the potential drawing power of Canadian periodicals has come forth significantly since the introduction of Bill C-58—and if the people here have found the Periodical Publishers' Association, they can confirm that.

In following the second reading debate in the Senate, I am disturbed by a number of statements made by senators that reflect the feeling that the bill and other aspects of our cultural policies are only supported by a minority elite in the country. This is patently false, and I deplore the ways in which this case is presented.

Senator Walker stated that "approximately 98 per cent of the Canadian public, according to the polls, wanted both *Time* and *Reader's Digest* continued on the same basis of operation at the present time." This information was supposedly obtained from the Gallup Poll results appearing in January, 1975. The question and answers were as follows:

Should Canadian Magazine Publishers be given some form of assistance or protection by the government or not?

Should: 41%

Should not: 36%

Did not know: 23%

You can see by these answers that it is not just a small elite that favours some form of protective measure for Canadian periodicals.

I presume the 98 per cent figure of Senator Walker is derived from the supplementary question which asked people what specific suggestions they have. Most were unable to volunteer a suggestion, and only one per cent specified controls or restrictions on *Time* and *Reader's Digest*. The large number of people who did not know what kind of protective measure was at best testimony to the complexity of the problem, and also to the timing of the survey—conducted before I introduced the bill in the house. It is nonsensical to conclude that 98 per cent of Canadians are against the intent of C-58.

Senator Walker: While you are at it, would you be good enough to read the question on which I based that figure of 98 per cent? You have given the original question.

Hon. Mr. Faulkner: We will get it for you, senator. I do not have it in my text.

Senator Walker: I think it is rather important.

Senator McIlraith: You should have it here. You charge the senator with being nonsensical.

Hon. Mr. Faulkner: Well, I am not refusing to provide the information. I just do not have it in front of me.

Senator McIlraith: But you have included in your text a "nonsensical" charge against a senator.

Hon. Mr. Faulkner: We can argue that once we get...

Senator McIlraith: No, it is not a matter of argument; it is a matter of the conduct of a witness before a Senate committee.

The Acting Chairman: Well, I am in the chair temporarily to scare hell out of these witnesses. I will try to keep that in mind. Perhaps you could let it go at that at this stage.

Senator Walker: Mr. Chairman, I consider the source of those remarks. I know how up-tight and one-sided and bigoted the witness has been throughout the whole proceeding, and I expect that he will be bigoted in his remarks about me. I have been in the courts for 45 years and he is a neophyte.

Hon. Mr. Faulkner: I wonder if Senator McIlraith has anything to comment on that.

The Acting Chairman: Well, I hate to get into this sort of thing and interrupt...

Senator McIlraith: I have a comment. I was trying to forestall that kind of thing because of what I thought was the improper conduct of a witness. I thought if that conduct could be corrected at the appropriate point in the proceedings, it would avoid this very sort of thing happening.

The Acting Chairman: You might gather more force if you wait until the end.

Senator McIlraith: Yes.

The Acting Chairman: Go ahead, Mr. Faulkner.

Senator Smith (Colchester): It does seem to get stranger as it goes on.

Senator Perrault: Well, let's hear the presentation.

Senator Walker: Let's deal with this point.

The Acting Chairman: Let's just wait and see whether that happens.

Senator McIlraith: I am agreeable to waiting. I thought it was worth drawing to the attention of the minister.

The Acting Chairman: Go ahead, Mr. Minister.

Hon. Mr. Faulkner: Thank you, Mr. Chairman. Continuing:

Indeed, how do you expect to be really "for" protection of the Canadian periodical industry when there is a continuing difficulty in distributing Canadian periodicals to Canadians. When asked directly, Canadians respond very positively to Canadian periodicals. For example, the CPPA received a very high response to a tear-out card advertising Canadian periodicals in *Maclean's*. Out of a mailing of 350,000 subscribers outside the major market areas, about 6,800 people responded for a 1.9 per cent reply rate. Those figures are significant since the usual reply rate is much lower. Compare it, for instance, to a .4 per cent reply of anti-C-58 postcards received by my department as a result of a *Reader's Digest* campaign to its 1.5 million subscribers against Bill C-58. The response is also significant since it represents Canadians from all parts of Canada, excluding the major urban centres.

Since the introduction of Bill C-58, as I have noted before, there is a breath of optimism in the industry. I would like to quote the media director of MacLaren Advertising in a recent issue of *Marketing*.

I'm really quite bullish about Canadian magazines in general. There has been a marked resurgence in interest in Canadian magazines which will stand to pick up *Time's* ad dollars.

Several new magazines have been created, or are about to be launched—regional magazines reflecting the interests, concerns and identity of various parts of Canada. One

regionally-based magazine already in operation is *Axiom*, a publication for Atlantic Canada and adopted as such by Eastern Provincial Airways.

A fairly new publication with a more countrywide appeal is the *Canadian Review*, which has greatly increased its circulation over two years to 50,000. *Canadian Review* will be issued on a monthly basis commencing in July, and will be distributed internationally in the fall.

The Canadian periodical industry is not only *Maclean's* magazine and the small, non-commercial art or radical magazine.

The CPPA has 124 members, primarily in the consumer magazine segment, and there are scores more of Canadian business periodicals. Supporting a broad-based and regionally represented industry hardly befits the label of a small "ultra nationalist" elite.

Another aspect of the bill which troubles some senators is the claim that too little time was given to those companies which benefit from the "grandfather clause" to conform with the provisions of the act. The periodicals affected argue it was not until October, 1975, two months before the act was to be promulgated, that the phrase "not substantially the same" was given an unqualified 80 per cent interpretation. The truth is completely different.

That, I would have to qualify, which I will do during the course of the discussion.

After five months of internal rumours, the government officially announced to the House of Commons on January 23, 1975, 11 months before the date of promulgation of the act, its intention of suppressing all exceptions mentioned in section 19 of the Income Tax Act. This was the introduction of C-58.

One month later—that is, 10 months before the date of promulgation—the then Minister of National Revenue, Mr. Ron Basford, informed periodical publishers and advertisers that the phrase "not substantially the same" could mean that the content of a periodical should be 80 per cent different from periodicals published abroad.

The interpretation officially announced last October by the present Minister of National Revenue, Mr. Cullen, confirms the statement of his predecessor. This interpretation could not have taken the publishers of *Time* by surprise, for they had already taken note of Mr. Basford's statement in the March 10, 1975, issue of *Time*. I quote from that issue under the heading "A Letter From the President."

Last week, the Minister of National Revenue, the Hon. Ronald Basford, announced that in order to qualify as a Canadian publication under the proposed amendment to the Income Tax Act, a magazine would have to be 80 per cent "different" from one published outside of Canada. He made it clear that the 80 per cent requirement did not apply to editorial content only. "It relates," he said, "to editorial format, the name, index where and who puts the magazine together."

It is unjust to accuse the government of having equivocated because, from the very beginning, the requirements were set at the 80 per cent level. It was not a last minute, arbitrary decision of the government.

Should we have given more than 10 or 11 months' warning? Some senators seem to think so. However, in spite of the prolonged debate on the foreign presence in publishing, and especially the report of the Special Senate Committee

on the Mass Media, these companies preferred to take no notice of the numerous warning signals.

It is worthwhile to consider the case of *Time* for a moment to illustrate my point. Since September, 1974—that is, long before the official announcement of the government's proposals—the President of Time Canada Ltd. wrote the government in the following way:

Briefly, if action were taken by your Government to amend that part (Section 19) of the act and disallow the Canadian advertiser deduction of the cost of his advertising in *TIME*, we would have no option but to close our publishing operations here

He went on further to say:

Circumstances would compel us to distribute *Time* in Canada in the same way that other foreign publications circulate here.

In concluding he said:

It is underestimating the case to say that it would be with great reluctance and regret that Time Canada Ltd. would terminate its publishing activities in Canada.

This communication shows that since the beginning *Time Canada* has had little inclination to meet the requirements of article 19.

Seven months later, in the *Time* issue of March 10, and several days after Mr. Basford's statement, the publishers of *Time* informed their readers, and indirectly the government, that they were favourably disposed towards the provisions of the act concerning ownership and editorial control, but not those concerning content as set out by the Department of National Revenue.

Two months later, in late April, 1975, *Time* officials went to Revenue Canada with a formal request for a ruling on a proposed new format of *Time*.

Senator Salter A. Hayden (*Chairman*) in the Chair.

Hon. Mr. Faulkner: The subject of the format has already been gone over in terms of the discussion earlier with Mr. Garland and Mr. Cullen. Perhaps I can jump to the middle paragraph on page 18.

The Chairman: It seems to me, Mr. Minister, that this might be a good point at which to address a question or two.

During the course of preparing this bill, or at any time afterwards, had any thought been given to the possibility of phasing out the incidence of this non-deductibility?

Hon. Mr. Faulkner: You mean, staging it over a period?

The Chairman: Yes, because it does represent creating an immediate loss to an industry that enjoyed the right as a matter of law to carry on in Canada, and had been permitted to do so for at least ten years.

Hon. Mr. Faulkner: It was considered, and that was the reason why we decided to announce it in January, only effective virtually a year from that date. I shall be getting to that matter later in my presentation.

The Chairman: As long as you understand what I mean by phasing out. I mean phasing out the loss that immediate action would create and spread that over a period of years. Had there been any thought given to giving permission to the people who might be affected by the bill to be able to apply and have a hearing somewhere to point out the effect

the bill has on them, the same as you have with CRTC, where there is provision for hearings? As you know, CRTC started out with a 55 per cent program content. Then there were hearings, and as a result of all that the 55 per cent went back to 45 per cent. Then there were more hearings at a later date—I do not know whether they were instigated by the commission or by the companies—and then that content rule was raised to 60 per cent, which is where it stays today. They have had hearings even on the question of capital and Canadian ownership of 75 per cent. If you look at the record of CRTC you will see that it took a period of five years before the people affected were able to work themselves into their full position, but at least they had some place where they could go and talk about it.

Hon. Mr. Faulkner: If you will permit me, I try to deal with that, because I remember you raised it in the second reading debate. I am not sure I answer all your questions, but maybe I could complete my presentation.

The Chairman: If you don't, I will ask them again.

Hon. Mr. Faulkner: I would like to finish the statement if I might. It does in fact at one point deal with that matter.

The Chairman: We are trying to save your voice.

Hon. Mr. Faulkner: The water is at least partially helping. Perhaps I might start at the second paragraph on page 18.

Time will continue to publish in Canada. For anyone who doubts that it has always been a foreign periodical, I could bring your attention to several instances of its lack of Canadian orientation. One example is an article in *Time* Canada's December 20 edition. The article which appeared under the Economy & Business Section of the Canadian edition dealt with the alternative ways of moving Alaskan gas to the United States, i.e., a route across Canada or across Alaska and by tanker to the United States.

The magazine manages to avoid any reference whatsoever to any Canadian regulatory or governmental involvement in the decision. I would like to quote from the article:

So far, neither proposal appears to have a clear edge over the other, though the Federal Power Commission is studying both schemes carefully before it grants one a transmission permit next December.

In fact the critical question—whether to cross Canada—will probably be decided not by the FPO's impartial analysis but by politicians. Alaskan officials and some 44 labour unions are backing the El Paso plan which, as an All-American project, they believe will provide more Alaskan and U.S. tax revenues and create more U.S. jobs. Congressmen from Eastern and Midwestern states favour the Arctic Gas proposal because it promises to guarantee their voters supplies of slightly cheaper gas. In the end, the choice will be made by the White House, which is likely to find the great gas decision a touchy one to make in a tense election year.

Where is there any mention of the Berger Inquiry, the National Energy Board or any position of the Government of Canada?

The senators who have so far participated in the debate are concerned, and justly so, about fair play in the situation. I might ask: Where was the fair play when *Time* Canada had only to produce 10 per cent of its editorial content by itself for each issue, while all its Canadian

competitors have to produce up to 100 per cent of their content themselves?

The government has been accused of giving the act a punitively retroactive character. It has been accused of withdrawing from companies that are legitimately established in Canada privileges which they have acquired over a long period, a sort of changing the rules while the game is in progress. I might simply remind you of precedents in other industries.

In broadcasting, foreign interests, which had established themselves in good faith in Canada five to ten years earlier, had to withdraw in favour of legitimately Canadian interests. There is one difference from broadcasting, however, in that Bill C-58 does not oblige the publishers of foreign periodicals to cease operations. The continued publication of *Time* is proof enough.

Senator Hayden raised the analogy of policies to Canadianize the broadcasting system. It is only partially true that in this sector it was necessary to extend the change over a long period.

The Chairman: Just on that sentence, which is addressed to me, I think I praised the CRTC method of dealing with it, and said that they showed some appreciation of the position of people who are here by virtue of specific exemptions. I was dealing with it factually. Why do you say it is only partially true?

Hon. Mr. Faulkner: Can I continue?

Senator McIlraith: No. You can't interrupt the Chairman like that.

Hon. Mr. Faulkner: I would like to complete the explanation. I think you will probably find an answer to the question.

The Chairman: You mean there is no short form of answer?

Hon. Mr. Faulkner: No short form.

The Chairman: All right.

Hon. Mr. Faulkner: Existing broadcasting companies were given approximately two years to meet Canadian ownership requirements, and new entrants in this field were required to comply immediately upon this decision's coming into force in 1968.

Canadian content regulations in broadcasting have existed since the beginning of federal regulation in this area. The CRTC held public hearings for each change in content regulations, but you must remember that broadcasting, unlike publishing, is a regulated industry. Broadcasters operate under licence, and any major change in the licensing arrangements is the subject of public hearing. It is false to make a comparison between the practices...

The Chairman: Mr. Minister, may I say that I think your language is...

Hon. Mr. Faulkner: Too strong?

The Chairman:—less restrained than it should be to say that it is false to make a comparison.

Hon. Mr. Faulkner: Maybe I could say that it is accurate, or I could disagree with the comparison.

The Chairman: Because you disagree it does not make it false.

Hon. Mr. Faulkner: No. I am qualifying the words, because the purpose is obviously not to offend the chairman of the committee.

The Chairman: Don't worry about offending the chairman; he can look after himself. I just think the language is not apt.

Hon. Mr. Faulkner: We can adjust the verbs and adjectives.

The Chairman: I don't think that statement helps any. Why is it not a perfectly proper thing to make a comparison between the practices of a regulating agency and a regulated industry and amendments to the tax act?

Hon. Mr. Faulkner: The point I am trying to make is that it seems to me there is a qualitative difference between the two situations. I think the other important point is that in the case of the broadcasting industry you are dealing with a limited range of channels, whereas in the case of the publishing industry you do not have those sorts of restrictions. If I may put it in another way, it seems to me the analogy may break down, but I would be prepared to hear argument to the contrary.

The Chairman: The only intent, Mr. Minister, was to show that the CRTC was interested in giving those who might be affected a fair opportunity to present their cases by providing for hearings. The hearings were effective, so far as content was concerned.

I thought the comparison was the basis for presentation of the argument. If you disagree with it, that does not make it false.

Hon. Mr. Faulkner: We will drop the "false." The point I was trying to make is that it does not seem to me that the analogy is on all fours. I do not see the situation as being comparable in that sense. I think the point you are making is that they should have been given time, as they were in the case of the broadcasting industry. My response to that is that we did give them time.

We made the announcement for our intention in January, only to become effective a year from now. There were parliamentary hearings both in the House of Commons and in the Senate, to hear witnesses and to have some indication of the impact.

I would admit to this: I had hoped that this debate and discussion would have taken place a lot faster, and that we would have moved into committee stage in the other place a lot faster. There was that intention originally to provide for that time frame.

The Chairman: We could not do anything about that.

Hon. Mr. Faulkner: No, absolutely. I am not faulting you for that.

Senator Buckwold: I would suggest that the witness be allowed to finish his statement, and then cross-examine him. We will run out of time before we know it, and I would like to hear the end of the presentation.

Senator Smith (Colchester): Perhaps if the presentation were not so provocative he would have finished by now.

Senator Buckwold: It is only provocative in the eyes of some.

Senator Perrault: Mr. Chairman, in Parliament we hear many provocative presentations. We have had the general

practice of hearing the brief being submitted and then have cross-examination after the presentation. So, I do not think that is a valid point made by Senator Smith.

The Chairman: The procedures we are following are ones approved by the committee, and Mr. Faulkner was advised a day or so ago on the telephone, when he told me about his statement being 27 pages in length and wanting to know how that would affect things, that they will listen. This is an opening statement and there is no limit on the length of time you want to take, but I cannot assure you that there will not be questions interjected, because that is a well recognized policy here.

If you were to carry through the 27 pages, and have everyone make notes, that would be an impossible way of carrying on. However, I am in the hands of the committee.

Senator Flynn: We are going along pretty well. If senator Perrault does not intervene another time, it will help.

The Chairman: I beg your pardon?

Senator Flynn: I said that if Senator Perrault does not intervene another time, it certainly will be helpful.

Hon. Mr. Faulkner: Perhaps we could then turn to page 22 which deals with section 19(4).

Senator Walker: Mr. Chairman, you will have to excuse the Leader of the Government, this is the first time he has been present. He does not understand.

Senator Perrault: Mr. Chairman, that is a false statement, and, secondly, I think the Senate is not bringing very much credit upon itself this morning by the rancour which has been injected into this hearing. I, for one, would like to ask the witness a number of questions, but I would like to hear his whole statement. That is my personal view on this matter. This is an important bill and I think we want to hear his complete statement before we ask our questions.

Senator Smith (Colchester): I am glad to see that Senator Perrault is so calm and composed.

Senator Flynn: That is always the case.

The Chairman: Every member of the committee has a copy of the presentation. The witness is reading it, and I have not heard him objecting or refusing or asking to answer questions when he has concluded reading his statement. This is committee practice.

Senator Walker: You will learn what it is all about.

Senator Perrault: Now, senator, let us listen to the witness. We did not come here to hear you testify.

Senator Walker: Until you said something everything was going along pleasantly. Now, be quiet, will you?

Hon. Mr. Faulkner: Mr. Chairman, I am almost through. Although I know it will be viewed with regret by all present, I am almost through. I am now going to deal with the elimination of section 19(4).

Whatever the merits of this method of taxation there is little reason to depart from the spirit of the 1965 legislation, which has demonstrated its effectiveness and wisdom to everyone's satisfaction since that time. I hope that is not an overstatement. The sole aim of Bill C-58 is to eliminate all exceptions to the general rule, not to begin a new course of action which has been rejected in the past.

Several senators have made specific pleas to allow *MD of Canada* to retain its exempt status. Let me describe my opposition to this position.

MD of Canada claims it could be covered by Section 19(4) of the Income Tax Act which presently provides tax exemptions to advertisers in any Canadian publications the principal functions of which are the encouragement, promotion or development of the fine arts, letters, scholarship or religion. It provides special case provisions to a few select publications, which are neither Canadian in ownership or editorial control. By introducing the legislation at hand, Bill C-58, the government has firmly stated its intent to remove all such exemptions and anomalies from the Income Tax Act.

The reason for removing exemptions from this category is the same as for eliminating the exemptions to the consumer magazines, like *Time*. In economic terms, it makes little difference to a Canadian periodical publisher trying to survive in Canada whether an American magazine with Canadian tax privileges is filled with world news or with medical articles. All he knows is that he is forced to share a tax incentive with a competition who is already at an economic advantage because of his larger home market.

Some may argue that magazines in this class—promoting the development of fine arts, letters, scholarship, or religion, are more important, or more significant, or more international than other magazines. They may be. But it does not readily follow that for these reasons, foreign periodicals in this class should be given Canadian tax advantages. I think that is really the point I was trying to make to Senator McIlraith.

I believe that we have the talent and ability in this country to produce quality magazines in many fields. To have Canadian scholarly magazines share tax advantages with foreign periodicals, can only make what is already a difficult economic situation worse.

Another reason for not allowing foreign periodicals the Canadian tax advantages for this type of periodical is the potential loophole for more commercial types of periodicals. The distinction between scholarly and non-scholarly magazines is not black and white, and there is one indication that a broad interpretation of this clause would be established. I refer to 1972 Federal Court of Appeal decision involving Jay Kay Publications, which indicates that the courts might allow periodicals with significant advertising revenue to qualify under this clause. This amendment, therefore, might not only allow foreign scholarly periodicals with significant advertising revenues to qualify for Canadian tax privileges, but could even become a loophole for magazines never originally intended to qualify under Section 19(4). The *National Geographic*, with its enormous spillover circulation in Canada, could conceivably receive protection under Section 19(4).

Let's take the specific case of *M.D. of Canada*. *M.D. of Canada* is foreign-owned, and operates under a license from the parent and the bulk of its editorial feature material is researched and written by the New York based staff. A small news section pertaining to happenings in the Canadian medical community is written by a professional journalist in the Montreal office. In short, *M.D. of Canada* is a foreign publication, notwithstanding some of the remarks of Senators.

In so saying, however, I do not deny that it is a highly useful tool to the Canadian medical profession nor that it is widely recognized. Rather, for these very reasons, cou-

pled with the fact that it is delivered free of charge to over 25,000 members of the Canadian medical community, there is serious doubt that advertisers would abandon it as the medium through which they reach the medical profession, even if advertising costs increased as an offset to the impact of the enactment of Bill C-58. Since it is such a good medium for advertisers there is also serious doubt that it would cease publication in Canada.

Of course the government would welcome any decision by *M.D.* to Canadianize its operation as required by law. Should it choose not to do so, however, like *Time* it is not precluded from operating and/or being available in Canada.

The next section was dealt with by Mr. Cullen. I was anticipating going before him but since he went before me I believe that situation was discussed in depth with honourable senators. Therefore, I will conclude so that we may get some questions.

I conclude by expressing the hope that this committee will recognize the fairness and reasonableness of the government's approach. Bill C-58 is not designed by ultranationalists to put Canadian periodicals on easy street by guaranteeing success for existing or future periodicals. It simply sets an environment whereby our own country's tax laws, rather than discourage, stimulate our own publication endeavours.

Thank you, Mr. Chairman, honourable senators.

The Chairman: Questions?

Senator Walker: Mr. Minister, I will try to keep this simple, without using those big adjectives you have been using. We will just keep it down to normal, eh? The O'Leary report came out and then the government made certain restrictions and they excluded *Time* and *Reader's Digest*. Then the matter came up again in 1965—that is correct, isn't it?—when the Honourable Mr. Gordon, the then Minister of Finance, corroborated that exemption should be given to *Time* and *Reader's Digest*. That is correct? Yes. Now, in 1971 my friend and colleague, Senator Davey, was the chairman of the mass media investigation. Is it significant to you that at that time, in 1971, all of the five major magazines of the Magazine Advertising Bureau supported the retention of the act introduced by Mr. Gordon just as it was? Do you remember that? There were no interferences at all. None of the magazines, including *Maclean's*, suggested that these exemptions should be taken off. That was in 1971. You have agreed so far. Now, the reason that they did this, or one of the reasons, was that to have *Time* and *Reader's Digest* in the advertising field was a great advantage to them because it made more realistic the magazine industry as a source of advertising. The *Star*, of course, was against it. The *Star* at that time was headed by Mr. Newman. He is now the head of *Maclean's* magazine and whether it was a result of that or not, *Maclean's* magazine is the spearhead in the effort to change the bill at the present time. And, as a result, the bill has been changed so far as the House of Commons is concerned.

Other than the interjection of *Maclean's* magazine which did a *volte-face* for its own particular reasons, wanting to become a news magazine and wanting *Time* out of here and also *Reader's Digest* out of here, can you give any other reason for the government becoming all of a sudden so enthusiastic about getting rid of *Time* and attempting to get rid of *Reader's Digest*? Is there any reason other than the attitude and the powerful clout of *Maclean-Hunter Publications*? What other reason is there that has come up

now that was not here in 1971, when my friend Senator Davey did a splendid investigation, inviting everyone to give evidence, and in 1965 when your revered former minister of Finance, Mr. Gordon, gave us the act that you have now just amended? Would you be good enough to tell us? Give us an answer to that.

Hon. Mr. Faulkner: I will, senator. I think I have to take more of the blame than you are prepared to give me for this legislation.

Senator Walker: You might think I was prejudiced if I blamed you.

Hon. Mr. Faulkner: I am only reflecting on your second reading of the bill. No, I would not say you are prejudiced. I think there is an honest difference of opinion between us on this matter. No, several months after I became Secretary of State I had some meetings—incidentally, not with *Maclean's* but with individual publishers, really canvassing their opinions about the state of the publishing industry; what, if anything, the federal government should do to try to revitalize the industry; because there was some concern that the full potential of the Canadian magazine industry was not being realized. It came back in every conversation, senator, that one of the things on which there seemed to be a consistently similar consensus, if that is English, had to do with the exemptions created in the 1965 law allowing *Time* and *Reader's Digest* to play such a major role in attracting advertising revenue, because the argument was that if the government is not going to go via the Canada Council and give us grants, and there was a lot of opposition to that route as a potential route, and if we are to stick with the basic premise of the O'Leary Commission, namely, that advertising revenue should be directed to support Canadian periodicals, then it seemed to them, and it eventually became clear to me, that this exemption—exception was undermining the intent of that law. So that is really the origin of it.

I think I had only one discussion, maybe two, with people in *Maclean's*, but if we are to say that there is a spearhead, then, beyond my own interest in it from the beginning, I would have to attribute it to the Canadian Periodical Publishers Association. I think they have been far more aggressive...

Senator Walker: The same people who were in favour of it in 1971 have turned over, have they, *volte-face*?

Hon. Mr. Faulkner: I would have to look at that list, but just in terms of a spearhead, I don't think you can say it is the *Toronto Star* because I am not a particularly favoured son of the *Toronto Star* and I don't pay much attention to them. *Maclean's* was obviously sensitive about the fact that they were one of the major publishers in this field and could be construed as the principal recipient, and I think they have been rather restrained—sometimes I felt a little too restrained—in their support for this bill. But the one group that was unequivocal from the beginning and totally supported me all down the line, and if there is to be a spearhead—and it is not me; I am prepared to yield on that, although I have felt very strongly about this from the beginning—I would have to say it is the Canadian Periodical Publishers Association. Their membership and their leaders have all said that this was necessary. I think that, really, as candidly as I can say it, is the recent origin of this Bill C-58.

Senator Walker: Is there any documentation of that, of their *volte-face*?

Hon. Mr. Faulkner: Who is this?

Senator Walker: The Canadian periodical magazines.

Hon. Mr. Faulkner: They will be here as witnesses and they are in the back of the room here, so maybe you should ask them that.

Senator McElman: Mr. Chairman, I think the point should be made that Senator Walker is confused. The witness has spoken about the support of the Canadian Periodical Publishers Association. Senator Walker spoke about the Magazine Advertising Bureau, I believe. They are totally different.

Hon. Mr. Faulkner: They are different, yes. I thought he was talking about the Canadian Periodical Publishers Association.

Senator Davey: The Canadian Periodical Publishers Association, Senator Walker, took this identical position before our committee. The Magazine Advertising Bureau did not, but the Publishers Association did.

Senator Walker: Mr. Chairman, on page 11 the minister says that "Senator Walker states that 'approximately 98 per cent of the Canadian public, according to the polls, wanted both *Time* and *Reader's Digest* continued on the same basis of operation at the present time'."

What other conclusion could I come to when asked about the number of people who wanted the magazines to be changed and to have taken away from them the privilege which they had had? What other conclusion could I come to in taking the figures from the Gallup poll than that it was 98 per cent?

Hon. Mr. Faulkner: Well, I have offered my explanation of that, senator. It seems to me that a fair conclusion would be that they did not know. I thought it was an overstatement to say that they were opposed.

Senator Walker: But only 1 per cent of all those interviewed wanted any change made. Although, if we are agreed on that, I don't mind you calling it "nonsensical," because that is a matter of your opinion.

Hon. Mr. Faulkner: Senator, we have always had a very cordial relationship. If you feel "nonsensical" is too strong a term, I am prepared to modify it. The point I am trying to make is that I do not think you should conclude, as I believe you have concluded, that 98 per cent were opposed to some form of legislation. I think it may be unrealistic to expect, in a random sample of the Canadian population, to let them specify *ab initio* what they would propose.

Senator Smith (Colchester): I would like to ask what has taken place with reference to *Reader's Digest* which makes it less competitive than other Canadian periodicals, as compared to the situation that existed at the time the bill was introduced.

Hon. Mr. Faulkner: Well, it is still competitive. It is not less competitive.

Senator Smith (Colchester): Then it is still the same hazard to Canadian periodicals as it was then. Is that what you are saying?

Hon. Mr. Faulkner: Well, the difference now, as I understand it, is that some of the economic advantage which they enjoyed before, under the exemption, has been elimi-

nated, though not totally, as I confess. As I say in a section of my brief that I did not bother reading, because it had been the subject of discussion prior to my arrival, it is difficult to equalize totally the market economic forces in this sort of market, as it is in any market, as you know, senator.

What we are trying to do under Bill C-58, is to equalize, as best we can. In the case of *Reader's Digest* it is still competitive, and is still a very attractive advertising medium. The difference is that *Reader's Digest* has now decided to conform to the law, and insofar as they have done that, I do not think one can then further penalize them.

Because that was always the option, you know. The argument has always been made that what I was trying to do was to kick someone out, but I am not getting into an argument about that, because that is a question of motives, I suppose; but I have always said—and I can give you ample public proof of my statements—that it was never my intention to kick them out. I simply said that there was an option. I said, "Conform to the law, or operate outside."

I pointed out that the tax benefit was designed to support certain magazines that met certain criteria. Those criteria were adopted in 1965. I said to them, "Conform to those, like every other Canadian periodical, and benefit from the tax advantage. If you do not conform, I do not see that there is really an argument for allowing you to continue to enjoy the tax privilege."

Senator Smith (Colchester): I am not going to argue as to what your motives were; only you would know that. I am, however, trying to draw deductions from what your actions and words are. However, that is perhaps another matter.

What difference is there in the requirements with which *Reader's Digest* must comply now, as compared with the requirements with which they would have had to comply at the time the bill was introduced?

Hon. Mr. Faulkner: The only difference relates to access to third party articles.

Would you like to repeat the question, to make sure I understand it correctly?

Senator Smith (Colchester): There was a certain set of requirements at the time this bill was introduced which had to be met by *Reader's Digest* in order to come within the scope of the bill—or escape it, depending on your point of view. I am just asking if those requirements are the same today, or have they been changed?

Hon. Mr. Faulkner: They are the same today as they were when the bill was introduced. The point at issue with *Reader's Digest*, which is subject to further clarification by my colleague, was whether or not they could have access to third party publications via the pool—that great collecting agency that they have across the world. They have something like 32 different centres collecting what they consider to be interesting and potentially digestible material. To have duplicated that in Montreal would have been an impractical proposition for them. They were affiliated with an international digest, and they wanted to clarify to what degree the law would discriminate against them in the arrangement by which they were affiliated with the international digest. The ruling my colleague made clarified that they could have access to those third party articles, but that they would have to condense them and digest

them and do whatever else they do to them in Montreal, or wherever it may be.

Senator Smith (Colchester): I suppose Mr. Cullen would be the right person to ask when he made that ruling, but perhaps you would know.

Hon. Mr. Cullen: I do not know the specific date. Earlier there was little or no point in talking to *Reader's Digest*. It was purely academic, because they had indicated that their owners were not prepared to go to the 75 per cent rule, and so their representations were made primarily on the ownership aspect. When they indicated to us that they could meet the ownership requirements, they then indicated the difficulty of a totally, 100 per cent Canadian owned digest endeavouring to operate in Canada, unless they did have access to this material; so the clarification I have referred to was given at that time. I do not have the specific dates before me, but they did in fact issue a press release to the effect that they would be able to meet the requirements.

The Chairman: Was it in October of last year?

Hon. Mr. Cullen: I made my initial announcement on October 23, but this was after October 23. I can get the date for you. They did in fact issue a press release to the effect that they would be able to comply.

Senator Smith (Colchester): Perhaps you would be kind enough to get us that date.

Hon. Mr. Cullen: Certainly.

Senator Molson: Mr. Chairman, I again raise the issue of MD with Mr. Faulkner.

Mr. Minister, the main reason you give that underlies your objection to admitting MD, or a magazine substantially like it, is that, again, it creates exemptions. Is that not right?

Hon. Mr. Faulkner: It is a little more than that, senator. It does create exemptions, but I would put it this way: the government, in 1965, tried to create a tax advantage for Canadian periodicals generally, and that principle was derived from the O'Leary commission. If we are to say to magazines of scholarly, religious or artistic categories that in Canada the principal source of support for their efforts in the publishing business is that of advertising revenues, then it seems to me that you create an exemption which would allow something like MD—a first class magazine—to share that tax advantage, which would really compromise the possibility of a Canadian equivalent. I would put it in those terms, rather than put it simply in the area of exemptions.

I am not looking for symmetry, in that sense, but I do see each exemption created as a potential compromise of something indigenous to this country.

There is nothing to prevent these magazines from circulating. I think it was Senator Laird who raised the question of circulation. As I pointed out in my brief, 95 per cent of newstand sales in Canada are of foreign periodicals; so when we talk about Canadian periodicals we are talking about a very marginal part of Canadian reading habits.

I suppose it becomes a question of its importance to us nationally—and I think there is a very great deal of importance to it; and if it is important, how do we redress the economic effort of the spill-over potential associated with

our proximity to the United States? We are doing it through the advertising vehicle, and therefore we cannot, I do believe, create exemptions, even in the area of scholarship, or medicine, or the fine arts.

Senator Molson: I think the thing that is regrettable is that you are probably not going to get a substitute for this magazine, and perhaps some of the others. I am using *MD* as an example because it is the one we are perhaps more familiar with; but there may be others which, because of our peculiar market, will not be circulated to the same degree.

Hon. Mr. Faulkner: I cannot dispute that. You may be right. In some areas, however, I am still operating on something of an act of faith that this will happen, and I think recent evidence indicates that my faith is not misplaced. There does seem to be a greater spirit of optimism, there does seem to be a restructuring of the industry, and there does seem to be a development of Canadian periodicals of an exciting kind. I think most people would admit that this is in part related to C-58. In the area of fine arts particularly we do have a very interesting collection. There is *Vie des Arts*, and magazines like it, that depend in large measure on the basic principle that they can go to an advertiser with their limited circulation, because they are not selling in the United States—it is very difficult for them to break into that market—and compete with an American equivalent.

The Chairman: But, Mr. Minister, I understand that this *MD* magazine is published first in Canada. Have you checked that?

Hon. Mr. Faulkner: When you say “first”, what exactly do you mean?

The Chairman: And then the publication in the United States appears in a subsequent month.

Hon. Mr. Faulkner: I would have to check that, Mr. Chairman.

The Chairman: If that were the case, it would take it out of the application of these amendments

Hon. Mr. Faulkner: That is an interesting point, but I think it should be addressed to my colleague.

The Chairman: Maybe you would like us to make an amendment on that point.

Hon. Mr. Faulkner: To tighten up the law, you mean?

The Chairman: Well, we can always try.

Hon. Mr. Cullen: Mr. Chairman, I was asked a date by Senator Smith (Colchester) and I find now that it was February 3, 1976 that *Reader's Digest* issued a press release to the effect that they could in fact comply.

Senator Lang: Mr. Chairman, may I ask the Minister of National Revenue a question? This matter comes to us in the guise of an amendment to the Income Tax Act, and presumably the Income Tax Act is generally for the purpose of raising money for the exchequer or increasing the burden imposed upon the citizenry of this country. Could the minister give an assessment as to what effect this bill will have in that area if it becomes law?

Hon. Mr. Cullen: Administratively, very little.

The Chairman: But dollar-wise?

Hon. Mr. Cullen: It is really difficult to say. It depends on where that advertising revenue goes. For example, if an individual corporation chooses not to advertise and chooses not to take that tax advantage, then of course there will be more coming in. But if they choose to put it into a magazine or television or radio advertising where it can be written off as an expense, then there will be very little change in the revenue. My guess would be that there would be an insignificant change.

Senator Lang: Does the minister agree with the use of the Income Tax Act for the purposes that we are discussing today in principle?

Hon. Mr. Cullen: That is a policy that I had some difficulty with when I was with the Minister of Finance as parliamentary secretary. I sat through the creation of two budgets to determine to what extent tax legislation should be used to bring about changes in social policy. But in fact that is being done. I think, speaking from an administrative standpoint, it is easier to deal with tax laws that are concerned primarily with the raising or lowering of taxes. I realize that I am really saying yes and no. I understand the point you are getting at, but there is real difficulty in making that determination because from an administrative standpoint it is particularly difficult.

The Chairman: Well, let us put it this way; you would not be counting on any additional funds that you might possibly get by virtue of these amendments for the expenditures of the government?

Hon. Mr. Cullen: I think it is important to recognize that the Income Tax Act from the aspect of raising of funds is really the prerogative of the Minister of Finance. Whatever he tells us to collect, we collect. If an amendment is made to the Income Tax Act which brings in less money or more money, we simply administer it on that basis. It is really a question you should direct to my colleague, the Minister of Finance.

The Chairman: My point was as to the dollars involved. Is there any significant addition to the amount of dollars involved by reason of this amending bill? By that I mean that I take it that *Time*, which is adversely affected, paid taxes on its revenues in Canada. Now, when they discontinue in Canada, that revenue will be lost or most of it will be lost—is that right?

Hon. Mr. Cullen: I really could not make that judgment now because they still are publishing and distributing in Canada and have made the determination to set their rates at the 50 per cent level in order to generate at least some revenue. But balanced against that is the revenue that we might very well secure from the myriad of other publications that we hope will develop in this country. I do not think I could give a simple black-and-white answer to the question.

The Chairman: Well, you would not want to make heavy commitments on the basis of substantial increases in revenue.

Hon. Mr. Cullen: As a politician, Mr. Chairman, I try not to make too many heavy commitments that I cannot back up down the line.

Senator McElman: Mr. Chairman, if I may ask a supplementary question, was this a serious question raised at the time that the other bill was passed in 1965 and which applied in exactly the same fashion as this one does?

Hon. Mr. Cullen: I think you would have to ask your colleague Senator Mellraith about that one. I was just starting a law practice at that time and I was more concerned with making a buck and paying taxes.

Senator McElman: I think perhaps the chairman was also chairman at that time, and perhaps he could tell us this for the benefit of the committee.

The Chairman: I think that perhaps this might be a good time to adjourn.

Senator McElman: I am sorry, Mr. Chairman, I think you missed my point.

The Chairman: I did not even attempt any answer to your question. The question was addressed to Mr. Cullen.

Senator McElman: But I asked then if the chairman could inform the committee as to what the situation was in 1965. Was this question involved at that time as well?

The Chairman: I am not a witness.

Senator McElman: I was not trying to make you into a witness, Mr. Chairman. I am simply asking for information that I thought would be relevant in the current situation.

The Chairman: I would expect the departments concerned should be equipped to give the answer to that question.

Senator McElman: Well, then, perhaps the witness will get the information and advise us.

Senator Lang: I think what Senator McElman is driving at here, Mr. Chairman, is the constitutional issue as to the power of the federal government to deal with questions of property and civil rights within the provinces. I think it would be interesting to have somebody appropriate from the Department of Justice to give us some evidence on that matter. Here we have in effect expropriation, without compensation, of property rights within a province by use of sections of the Income Tax Act. I think it probably does raise some very knotty problems of a constitutional nature.

Senator McElman: That really was not the thrust of my question.

The Chairman: Well, I would suggest that we adjourn at this time.

Senator Davey: Could I ask a further question, Mr. Chairman?

The Chairman: Will it keep until after lunch?

Senator Davey: Well, I would like to ask if Mr. Faulkner is coming back before the committee.

Hon. Mr. Faulkner: I cannot come back after lunch, but I can come back at some other time.

The Chairman: Well, we were going to adjourn until 2.30.

Hon. Mr. Faulkner: I assumed from the discussions we had that we would be through this morning, and I have other commitments this afternoon. But I would be glad to be available at some other time. I understand Madame Sauvé will be here this afternoon too.

The Chairman: No, she will not be available this afternoon, so we told her we would hear her tomorrow morning.

Senator Cook: So we will have time to digest the information we have.

The Chairman: Will you be available this afternoon, Mr. Cullen?

Hon. Mr. Cullen: Well, it is my duty day in the house, but I am sure I can convince Mr. Whip to let me go. If you want me here, I will be here.

Hon. Mr. Faulkner: If the committee is agreeable, then I can stay here for a few more minutes if Senator Davey has some questions.

The Chairman: I was trying to oblige Mr. Cullen.

Senator Davey: Mr. Chairman, can we determine when Mr. Faulkner will return? Will it be on another day?

The Chairman: I suppose that rather than doing all this talking back and forth, maybe you should put your question.

Senator Davey: No; I have a series of questions. I have another for you, Mr. Chairman before we adjourn. I wonder if it would be possible to obtain a list of the witness who will appear on subsequent days. I am not a member of the committee and do not have such a list.

The Chairman: You have all the rights of members of the committee, except that you cannot vote.

Senator Davey: Is there a list of witnesses available?

The Chairman: It is available; there is no secret about it. The clerk will provide one for you, but the witnesses are not all confirmed as to times as yet.

Senator Davey: That will be fine; thank you.

Senator Cook: Could we all have a copy of that list? I do not seem to have one.

The Chairman: Yes. Mr. Cullen, will you be in a position to discuss any of the aspects of broadcasting this afternoon?

Hon. Mr. Cullen: No; that is totally out of my jurisdiction. I have no interpretation on that at all.

Senator Cook: I do not think it is necessary for Mr. Cullen to return.

The Chairman: Then there is no purpose to be served by meeting this afternoon.

Hon. Mr. Cullen: I do not believe so, sir.

The Chairman: We had set aside a full day, so do not state at a later date that we dragged our feet in this committee.

Hon. Mr. Cullen: You have never heard that from me, sir, nor will you.

The Chairman: We will then adjourn until tomorrow morning at 9.30.

The committee adjourned.

Ottawa, Thursday, May 6, 1976.

The committee met this day at 9.30 a.m. to resume its consideration of Bill C-58.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, our first submission this morning will be presented by representatives of *MD* magazine. Those appearing are: Dr. William C. Gibson, M.D., editor; Miss Verna Sabelle, president; and Mr. J. Bradley MacKimm, publisher. The other members of the group are here for reference purposes in case you have questions to ask of them.

Then, honourable senators, at about 10.40, if we have not finished this consideration, we will stay our proceedings for a short time because Madame Sauvé is to be here at 10.45. So we will hear her at that time; and then, if there is anything still to be said in connection with *MD of Canada*, we can revert to that afterwards.

I believe that Miss Sabelle, the president, has a very short opening statement to make.

Miss Verna Sabelle, President, MD Publications (Canada) Limited: Mr. Chairman, gentlemen, thank you for granting us the opportunity to appear before you this morning. As the president of *MD of Canada*, I am here to seek your assistance in our effort to continue publishing *MD of Canada* in Canada. I should like to introduce the editor of our magazine, the distinguished physician, educator, and medical historian, Dr. William Carleton Gibson of Vancouver. Doctor Gibson is Professor of Medical History at the University of British Columbia. In addition, he has long been an active participant in the work of voluntary health associations and philanthropic organizations in Canada, the United States and Europe, including the Wellcome Trust's Panel on the History of Medicine, the Muscular Dystrophy Association, and as consultant to the World Health Organization. Doctor Gibson will explain the editorial concept of *MD of Canada*.

Dr. William C. Gibson, Editor, MD Publications (Canada) Limited: Mr. Chairman, gentlemen, I add my thanks for the privilege of addressing you. Before describing the nature, ideals, and services of *MD of Canada*, I would like to set forth just why we are here. We are here to request the striking out of clause 2 from Bill C-58, thereby retaining in the Income Tax Act, section 19(4), which since 1965 has provided an exemption for publications in the category of fine arts, letters, scholarship, or religion, but does not include magazines of a news or digest type.

I am sure that all of you have seen copies of *MD*. It is a journal that is unique because of its concept, and a journal that has become a well loved companion to our physicians. Please bear with me for a moment while I speak not as the editor of *MD of Canada* but from the point of view of my profession, which is medicine.

MD of Canada's greatest value to physicians is that it relates directly to our three roles in life: firstly, our role as doctors bound by the Hippocratic Oath to preserve the health of our fellow men; secondly, our role as members of society; and, thirdly, our role as human beings eager to know and perpetuate our cultural heritage in medicine and the arts, not only of our contemporary world but of the world that dates back in time even before the era when our forebears were scrawling drawings on the walls of caves and covering fractures with mud, thus providing the first natural cast.

MD of Canada was founded in 1960 by the great medical historian of international stature, Dr. Félix Martí-Ibáñez. He believed that the physician is an individual who by nature, education, and profession needs to understand his

fellow man in science, education, culture, history and art, in order to understand more fully his patients and to administer to them on both the physical and psychological levels.

Thus, my friend and colleague, Dr. Martí-Ibáñez began *MD of Canada* in 1960 with the objective of stimulating and enriching the lives of physicians. In *MD of Canada*, doctors find the realization of this concept—the arts united with the sciences—in our biographies of scholars, artists, men of medicine, and educators, and in our articles on historic personalities and events, all of which are in the context of medicine.

Recent advances in medicine in Canada are also featured in our journal in reports on current medical meetings and events, as well as on developmental research and achievements in Canada. Much of this information is not available in any other single source. As I stated, *MD of Canada* is truly a service publication for those of us who are physicians.

I have presented to you some of the reasons for *MD of Canada's* uniqueness. Now, I will state how it is unique in terms of what it is not.

MD of Canada is not a news magazine or a magazine of opinion. It is not a digest of someone else's work. It is not a mass circulation magazine. It is not sold on newsstands. *MD* is an historical, cultural, medical journal that is not similar to any other magazine in the world.

Because *MD of Canada* was conceived and founded by a physician who was a medical historian, the history of medicine plays a great part in our pages, and since the history of medicine epitomizes the history of civilization the tone of our journal in one of universality.

We also bring to the attention of physicians around the world outstanding Canadians in medicine, the arts and letters, such as Wilden Penfield, Banting and Best, Stephen Leacock, Tait MacKenzie, the sculptor, Robert Service, Wilfred Grenfell, Emily Carr, Norman McLaren, and William Osler. Our senior writer in Montreal reports on important medical events, and this information is carried in our other editions for physicians in the United States and South America.

Because of our concept and because we write especially for physicians we receive a very enthusiastic response from them. The articles and cover stories in *MD of Canada* are conceived, researched, and written by our staff specifically for the physician. I should also like to point out that *MD of Canada* is not in competition with any other publication, because our contents are totally different.

Other publications—such as *Canadian Medical Association Journal* and *Canadian Doctor*—are clinical, with outside contributors, which means that the articles in those journals are written by physicians or scientists and are directly related to patient care and treatment. Let me stress the fact that we are not in competition with such publications. In fact, we complement one another. By comparison, *MD of Canada* does not publish the same type of material, for its articles are primarily cultural and historical in nature, researched and written, as I have said, by a highly trained staff.

I personally edit each issue of *MD of Canada*, and we have two editions, one in English and one in French and English. I am also the international editor of the U.S. edition of *MD* and *MD en Español*, the edition for Latin America. In addition to my editing, I also write for *MD of*

Canada, for the section "Mirror of Medicine," which appears monthly.

Since its first issue in 1960 our journal has been printed in Canada on Canadian paper from typesetting and plates manufactured here. It is mailed through the facilities of the Canada Post Office.

MD of Canada is sent free of charge to some 30,000 physicians in Canada. I respectfully submit that it is of sufficient importance to be permitted to continue to be published in Canada and be sent to physicians on the basis of advertising support. And, thus, we are sincerely requesting that we be allowed to operate under our present status and that Bill C-58 be amended by striking out clause 2; thereby retaining in section 19 of the Income Tax Act the present exemption provided in subsection 4(1)(b) for publications such as *MD of Canada*.

I want to thank you, Mr. Chairman and gentlemen, for your kind attention to my comments. With your permission, Miss Sabelle will now expand on the *MD* concept and also discuss some pertinent facts and figures that may prove of interest to you.

Miss Sabelle: Honourable senators, the hallmark of *MD of Canada*, since the day it was launched in January 1960, has been quality, accuracy, universality. Having worked on this publication from the time when it was in the planning stages, I am imbued in its ideals, for magazines, like individuals, do have ideals. I thought it would be informative if I expanded on what Dr. Gibson has said relating to the creation of our journal. Ours is a procedure by which ideas are set into action, resulting in well-rounded physician-oriented cover stories and articles. Our contents are planned for an entire year at a time; that is, 12 issues are planned in relation to the preceding year and the forthcoming year. The ideas are discussed and then assigned to a researcher-writer team, and that is when the real work of producing the features begins. After in-depth research is completed, it is given to the writer. When he has completed the feature, it is reviewed and edited by Dr. Gibson.

At this point world-wide research for illustrative material is undertaken, and following its completion it is reviewed and edited. Text and illustrations are then ready to be designed by the art department. The success of the research rest on access to the most diversified and extensive libraries, institutions, museums, private collections, and other sources. That is why Dr. Martí-Ibáñez located the research and writing function of the journal in New York. (For example, there are about 1,200 special libraries there).

Ours is a costly journal to produce. Our staff is highly experienced and skilled. In addition, we believe that the exceptional quality of the paper, printing and engraving is in keeping with our objective of distributing a publication of which we can be proud. In total, *MD of Canada* is sent free to some 30,000 physicians in Canada. We support ourselves through soliciting advertising, principally from the pharmaceutical companies, which makes the month-to-month publication feasible and, we hope, profitable, although such has not recently been the case nor, indeed, in the past have the results been all that encouraging financially. All advertising is solicited by our sales staffs located in Montreal and Toronto. The advertisements appearing in *MD* are necessary to us if we are to continue to publish. We have no other source of income. On the other hand, advertisers will not continue to advertise in our pages if they are subjected to paying a higher rate as a

result of Bill C-58. We will, in other words, be priced out of the market. Our current advertising rates are in line with the other journals for physicians.

Bill C-58 proposes to amend the Income Tax Act and, specifically, section 19. When we first began publishing in Canada in 1960, we faced no prohibition. Still later, when that section 12 (now section 19) was reviewed in 1965, section 19(4) was introduced to allow journals like *MD of Canada* to continue. But now the provisions of Bill C-58 present us with a dilemma: cease publication, or comply with the bill. Compliance means: first, meeting the test of "not substantially the same"; and, secondly, giving up 75 per cent of the ownership, which means giving up all semblance of influence over content, style, or direction.

With regard to point one, we have complied with National Revenues's interpretation of "not substantially the same" and the January, February and March 1976 issues of *MD of Canada* have met that test. We have done so by ensuring that 80 per cent of the material published in *MD of Canada* appears first in that publication. As to the second requirement, we find ourselves in the position of having nothing to sell, excepting the name of our journal. A purchaser of only the name *MD of Canada* would either function at a constant loss or be forced to cheapen the nature of the journal to survive, and this we could not accept.

We do not compete with any other publication in Canada. Those who advertise in *MD* advertise also in the other publications directed to physicians in Canada. Therefore, our absence from Canada will not result in more money flowing to them, but it will simply remove our magazine from Canada. It may appear presumptuous to say so, but we are as unique to the medical profession as *National Geographic* is to those who enjoy that magazine. As one who knows something of this field, I can only say that if we are forced to cease publication, *MD of Canada* could not be duplicated in Canada or, at any rate, at anything even remotely approaching a break-even point.

Now I should like to explain that as part of our dedication to serving physicians we give out hundreds of reprints each year free of charge in answer to requests from our physician readers as well as from educators and others. The essay most often requested is entitled "To Be a Doctor." In it Dr. Martí-Ibáñez describes the ideals of the practice of medicine. This essay has proved to be a source of inspiration to physicians, as well as to students who aspire to become doctors. Although it costs us an average of 50 cents each to supply these reprints, we give them out freely. The usual practice of publishing houses is to charge for reprints but, as both Dr. Gibson and I have stated, *MD of Canada* is dedicated to serving the physicians of Canada and, above all, to serving medicine in all its aspects.

Gentlemen, Dr. Gibson and I have endeavoured to tell you something about our publication, about our concept and our objective, about our people and about our operation. That we are appreciated and valued by the physicians of Canada is evident from the hundreds of letters we receive from doctors and their families and friends every year. We have tried to explain how we began in Canada in 1960 and our method of publishing, printing and editing here.

Finally, I indicated the problem posed for us by Bill C-58. We do not believe that we are a threat in Canada, nor that our departure will add any benefit to Canada, given the nature of our journal. We believe that we have contributed to the enrichment of the lives of Canadian physi-

cians and we hope to continue to do so. It remains for you to decide whether or not that is to be the case. If you are so persuaded, then we would request that Bill C-58 be amended by striking out clause 2, thereby retaining in section 19 of the Income Tax Act the present exemption provided by subsection 4) for publications such as *MD of Canada*.

The Chairman: The witnesses are now prepared for questioning.

Senator Laird: I have just a simple observation. It appears obvious to me from your evidence that if you were willing to sell out in Canada, 100 per cent, you could not even find a buyer.

Miss Sabelle: No, I do not believe so.

Senator Laird: Secondly, I noted that you said that all articles are published first in Canada. Is that right?

Miss Sabelle: Well, for this year, January, February, and March, when we learned that that would be one of the requirements, late last year starting in October we worked very diligently turning around our whole editorial machinery, which was rather expensive. However, we wanted to do it; we did it and were pleased to have complied with that, although the bill had not yet been passed.

Senator Desruisseaux: By way of clarification, because some remarks have been made in connection with *MD of Canada*, first, I wondered if of Canada was exactly the same magazine as that circulated in the U.S.A., the *MD Medica News Magazines*?

Miss Sabelle: No, it is not the same. The concept is the same. The opening sections of the magazine, which include medical news, and so on, are totally different, because in Canada we concentrate on Canadian events, achievements in medicine and meetings. Although we carry some of that information in our other magazines, it is not vice versa. We have never had simultaneous publication. For example, even before we began publishing our material in Canada first, the issues of *MD of Canada* were different from the U.S. edition. We have never had simultaneous publication. We may have published articles in the U.S. first at times, which we have done frequently, but in preparing them for Canada they have been re-edited for Canada, bringing in information that would be pertinent here, that would be of interest to physicians here.

Senator Desruisseaux: Regarding advertising, is the advertising being carried in *MD of Canada* the same as that being carried in *MD (U.S.A.)*

Miss Sabelle: No, it is not. There are several reasons for that. Companies here, even though they may have U.S. counterparts, operate independently, and products that are available here may not be available there, and they often have different names. But our publisher, Brad MacKimm, is well versed in this area and I think he could elaborate on that somewhat.

Mr. Bradley MacKimm, Publisher, MD Publications (Canada) Limited: What happens in Canada, senator, is that many of the products that are advertised in *MD of Canada* are also advertised in the United States. But the products, while they may have the same name, have different sizes, indications and dosages here in Canada than in the United States. So the advertisements in *MD of Canada* are of Canadian products for Canadian physicians with Canadian approved indications.

Senator Desruisseaux: I have one further question, Mr. Chairman. What would be the difference if Bill C-58 became law? What is your concern? You said it would affect you in some way. Would it mean that the magazine would fold up?

Mr. MacKimm: If I might mention my background, I have spent about 19 years in the publishing business, of selling advertising in magazines, and eight of those years have been publishing medical magazines. Prior to joining *MD* I was with McGraw-Hill and published three medical journals for them. In this marketplace, the pharmaceutical companies are charged with or are responsible for spending their advertising dollars in a very responsible way. They are supposed to spend those dollars judiciously and to buy advertising that is most efficient for them. If Bill C-58 were to be passed, it would have the effect of doubling the advertising rates of *MD*, and one of the prerequisites in this marketplace or any marketplace is that you have to be competitive from the standpoint of cost and coverage. Our costs would double and the advertisers would abandon *MD* in Canada. They would have no choice but to do so.

Senator Desruisseaux: You feel quite sure of that?

Mr. MacKimm: Yes.

Senator Desruisseaux: What is the circulation now in Canada?

Mr. MacKimm: Approximately 30,000. If I may add one point, senator, to your question, there have been several alternatives suggested. Another alternative is that *MD of Canada* might convert from free circulation to paid circulation. Again, publishing experience has shown that when journals convert from free to paid coverage their coverage or circulation decreases. Again, in this case, if *MD of Canada* were to convert to paid, our circulation would decrease and we would not have the coverage that the advertisers want. So again they would abandon *MD of Canada*. A final alternative suggested is that we might conceivably send *MD (U.S.A.)* to Canadian physicians. But the advertisers in Canada could not accept that because of the situation I mentioned earlier, because the products have different sizes and uses here in Canada.

Senator Desruisseaux: Are there many shareholders, or is this company owned by just a few in Canada?

Mr. MacKimm: In what, senator—in *MD of Canada*?

Senator Desruisseaux: Yes.

The Chairman: Let us find out who are the owners. I understand this developed from the original founder, Dr. Martí-Ibáñez, and it was willed to Miss Sabelle and Dr. Martí-Ibáñez's sister. So it is really an inheritance.

Senator Walker: Is that correct?

Miss Sabelle: That is correct, sir.

Senator Walker: That is most interesting. In other words, you have already converted to where 75 per cent of the material, since this edict came out, is Canadian?

Hon. Senators: Eighty per cent.

Miss Sabelle: Yes.

Senator Walker: It is a family concern. Why do you say—I am not denying it; I just want you to amplify—that

it could not be duplicated in Canada? Is it because it is a highly technical magazine and would require a lot of background and knowledge before someone else could publish it? What would be the reason?

Miss Sabelle: Actually it could not be duplicated anywhere, because our staff is so highly trained. Many have been with us since 1956. It takes years and years to train a researcher, a writer, picture researchers, and so on. These people happen to be available in New York, because that is a publishing centre. Many people in our continent who are interested in publishing gravitate to New York. Europeans gravitate to New York. We have Europeans on our staff who have come to New York because it is a publishing centre. If we were located, for example, in Chicago, just because we happened to be there, we would not be able to create this publication—a great part of it because of the availability of certain types of staff members, and also because of the sources of research. So this magazine could not be done in London, for example, because the materials would not be available.

Senator Walker: The minister said yesterday that his only reason—I think it is his only reason—for keeping you in this position under the bill, where you would lose out, was because he had no doubt, he said, that you could be replaced in Canada; and you have now given me all the reasons why you could not, have you?

Miss Sabelle: Yes . . .

Senator Walker: That is fine. I just wanted to know. That is very good.

Senator Sullivan: Mr. Chairman, I might be accused of joining the “mutual admiration society”, but I wanted to fully support the remarks of the distinguished professor of history of medicine of the University of British Columbia, Dr. Gibson. As I said in my remarks in the Senate—and I am fully acquainted with this publication—this is not *Playboy*; this is not *Maclean's* magazine; this is not some ordinary periodical: this is one of the most distinguished publications in the history of medicine in the world, and I do not want us to lose sight of that basic fact. The gap left by the distinguished historian, Félix Martí-Ibáñez, has now been adequately filled by the present editor, the gentleman whom we have heard speak. For the life of me, I cannot see how this magazine can be treated in the same vein as these other so-called publications, some of which we would be better off not seeing at all. *MD of Canada* is a scientific journal. It is recognized internationally through all of the associations of the world as being one of the great publications in the history of medicine, and it has continued to carry on in that particular aspect for the last 16 years. Every one of its editorials is a masterpiece. It is available in all of the distinguished scientific libraries of the world. I know whereof I speak in that regard.

I was more than interested in remarks made by the minister yesterday. I wish he were here today. At page 25 of his brief, he states:

... there is serious doubt that advertisers would abandon it as the medium through which they reach the medical profession even if advertising costs increased as an offset to the impact of the enactment of Bill C-58. Since it is such a good medium for advertisers there is also serious doubt that it would cease publication in Canada.

How does he know? I would like to ask Dr. Gibson if he has any knowledge of any publisher in Canada who would

acquiesce in the point of view expounded yesterday by the minister. I do not know of any.

Dr. Gibson: I think I can answer that question quite directly by saying that in a conversation with Peter Newman, the Editor of *Maclean's* magazine, in Vancouver in December when we were discussing this situation, he made the comment that he believed the *MD of Canada* was innocently caught in a net meant for bigger fishes, and also that there was no possibility of any publisher in Canada ever being able to equal this journal for a circulation of 30,000, freely given to physicians.

Senator Lang: Am I correct in my assumption that the obstacle you are facing now is the inability to dispose of 75 per cent of the ownership?

Dr. Gibson: Yes.

Senator Lang: I assume that is because there is no profit available to any prospective purchaser of an equity position. Could that problem not be obviated by making a donation of 75 per cent of the equity to the Medical School of the University of British Columbia, for example?

Dr. Gibson: You are very generous, indeed, senator Lang. We have considered McGill and other excellent medical schools. However, I do not see that as our real problem. The problem is to maintain the standard. We might sell it and then find that to produce a profit for the new buyer—by the way, we have not made any profit for the past two years—the content would be cheapened to a degree that we would rather cease publication than see that happen. As Senator Sullivan has suggested, it started at a high level, and we would very much like to maintain that level.

Perhaps Miss Sabelle and Mr. MacKinnon have other comments on that.

Miss Sabelle: As I pointed out earlier, whether it is sold or donated to a foundation, we would lose control of the magazine, which means losing the editorial direction. We have discussed this amongst ourselves. Foundations or universities would not necessarily be interested in taking on something that, for many years, might lose money. They may look at it as something of a drag on the institution, whereas in running a business, one can expect that there will be years when no profits are realized. Yet, the business will continue hoping to regain a profit position. A magazine in our field might not realize a profit because the advertising doesn't come through or pharmaceutical products have not been approved, and so forth.

Notwithstanding that, though there may be low periods of advertising, we always maintain a high leadership, and we achieve that through the editorial quality of the publication. If we have a very lean year, the quality of the publication does not suffer. The magazine remains the same editorially, for the reader—and, we hope, becomes better with each issue—whether we have little advertising or a fair amount of advertising. That is the way a business should be run. However, if *MD of Canada* is donated to a foundation, or is sold, and things have to be approved by a board of directors, given a bad year or two in terms of revenue, it might well be considered a white elephant.

Senator Walker: I wonder if I might direct a question to Dr. Gibson. Is there any publishing organization in Canada that is opposed to the continuation of *MD of Canada*?

Dr. Gibson: Not that we are aware of, senator.

Senator Walker: Is there anyone in existence, that you know of, other than the minister and his liege lord, Senator Davey, opposed to *MD of Canada* carrying on?

Dr. Gibson: I do not believe there is a soul opposed to us, senator. In fact, the mail we have received from physicians is overwhelmingly in favour of *MD of Canada* carrying on. We have had mail from physicians, school teachers, librarians, and so forth, pleading with us to hang on, whether or not we lose money. That is why, quite apart from the ownership problem, we would hope that the exemption for this kind of journal could be retained. As a Canadian, I personally feel that Canada is large enough and strong enough to have such an exemption, especially when the publication is edited by a Canadian.

The Chairman: Senator Macnaughton.

Senator Macnaughton: Dr. Gibson, I understand your position is that you want to amend Bill C-58 by striking out clause 2 and retaining, in effect, section 19(4).

Dr. Gibson: That is correct, senator.

Senator Macnaughton: Have you or your counsel any other method or suggestion by which *MD of Canada* could be protected by way of special exemption?

The Chairman: By striking out clause 2, the exemption contained in section 19(4) is restored, which is what *MD of Canada* has enjoyed since 1965.

Dr. Gibson: Mr. Chairman, there was one possible alternative. I do not want to tell the committee its business. However, since we have been publishing in Canada since 1960, five years prior to the original legislation, it might be that a grandfather clause might be taken into consideration. I do not know enough about legislative drafting to make any specific suggestion to you in that regard, but that is one other possibility that occurred to us.

The Chairman: There is a grandfather clause in section 19 of the Income Tax Act. While it was designed to exempt *Time* and *Reader's Digest*—and that is now being repealed—it would not be difficult, bearing in mind that precedent, to create a grandfather clause in respect of *MD of Canada*.

Dr. Gibson: Our hope was that we could continue publishing in Canada under the exemption for religious, scientific and cultural journals.

Senator Macnaughton: I do not think you would embarrass this committee by making any suggestions. I am just wondering whether either you or your counsel have any suggestions to make or assistance to offer in that regard?

Senator Desruisseaux: Mr. Chairman, supplemental to Senator Macnaughton's question, do we have any record available as to how many publishing institutions would be affected by the repeal or retention of clause 2 of the bill?

Dr. Gibson: I believe this was alluded to in the discussion yesterday, Mr. Chairman. The publications mentioned were the four Liverpool group papers, the *Christian Science Monitor*, *Modern Medicine of Canada*, *Médecine Moderne*; but I think the minister was wrong in thinking that the publication *Human Sexuality* still existed in Canada. That has ceased publication in Canada.

Senator Laird: Dr. Gibson, we have a very ingenious chairman when it comes to figuring out things mechanical. I think you can safely leave it to the chairman.

Dr. Gibson: I have great respect for his ability in that regard.

The Chairman: Are there any other questions?

Senator Davey: Could I begin by asking Mr. MacKimm this? You are the publisher of *MD of Canada*, is that correct?

Mr. MacKimm: That is correct.

Senator Davey: Do you operate in Toronto?

Mr. MacKimm: No, I operate in New York.

Senator Davey: Are you the publisher of other publications besides *MD of Canada*?

Mr. MacKimm: MD U.S.A.

Senator Davey: It is called *MD U.S.A.*?

Mr. MacKimm: It is MD Publications. I am the publisher of *MD* magazine in the United States and *MD en Espanol* in Latin America.

Senator Davey: The American publication is *MD*, is it?

Mr. MacKinn: *MD Medical News Magazine*.

Senator Davey: I have another question for Mr. MacKimm which I would like to pursue now, if you do not mind, although it does not naturally follow. I am curious to know when you worked for McGraw-Hill?

Mr. MacKimm: From 1965 to 1975.

Senator Davey: I have argued strenuously at other times that the legislation which resulted from the O'Leary Report in fact effectively prevented McGraw-Hill from coming into Canada and opening up a chain of business magazines, and in effect protected the Canadian business, which is now uniquely Canadian. Do you know anything about that at all, what plans McGraw-Hill had at that time?

Mr. MacKimm: No, sir.

Senator Davey: So you would not know whether I am right or not, whether my premise is correct or not?

Mr. MacKimm: I do not. I am totally unfamiliar with that.

Senator Davey: Could someone tell me how many physicians there are in Canada?

Mr. MacKimm: There are about 35,000 which includes retired physicians, interns and residents.

Senator Davey: So your publication is sent, in effect, to every medical doctor in Canada?

Mr. MacKimm: To approximately 30,000.

Senator Davey: The active list, in other words?

Mr. MacKimm: Yes, the active physicians.

Senator Davey: I noted that Dr. Gibson, I think, said that there is an English publication and a French-English publication.

Dr. Gibson: Yes, that is right.

Senator Davey: There is no French edition.

Dr. Gibson: No, sir.

Senator Davey: Why don't you publish a French edition?

Miss Sabelle: We would like to and we hope to publish a totally French edition one day, whenever we can afford it. We would like to very much. It is one of the plans on our horizon that we hope to work out. Meanwhile, we do have an edition that is partly in French. When there are medical meetings held totally in French we report on those meetings in French. A totally French edition is one of our hopes and plans for the future.

Senator Davey: What percentage of the French-English edition is in French?

Miss Sabelle: It varies. It could be anywhere from 8 per cent to 20 per cent. It just depends. Sometimes if we have...

Senator Davey: So it is really not a French-English publication; it is an English publication with a little bit of French in it, is that right?

Senator Walker: Let her finish her answer, will you?

Senator McIlraith: You cut her off.

Senator Davey: I did not mean to cut you off. I am sorry.

Miss Sabelle: It is perfectly all right. You could describe it either way; you could call it English and French or French and English. The French-speaking physicians do appreciate it very much, and we have never received any criticism on that account at all, from either physicians or advertisers.

Senator Davey: I am not being critical; I am trying to get an understanding. It is not a bilingual publication; it is not half French and half English?

Miss Sabelle: No, it is not.

Senator Davey: That is the point I am making.

The Chairman: As I understand the witness—and I want to be sure the committee understands it—they do publish what I would call a combined edition which contains French and English.

Senator Davey: Yes, I noticed that.

The Chairman: I do not think it is determined by a specific percentage, like the 80 per cent that you are supporting.

Senator Davey: I am not referring to the 80 per cent at all. It was my impression that there was an English publication and a publication that was half French and half English. Now, if that is not the case, as I say, I am not being critical, but I am trying to find out. I would also like to know what percentage of Canadian doctors are French-speaking.

Senator Sullivan: Mr. Chairman, I can partially answer Senator Davey. Judging from the number of letters sent in to the editor of *MD of Canada*, there are a great many French-Canadian doctors who are asking for these essays.

Senator Davey: With great respect to Senator Sullivan, my question was: How many of the 35,000 Canadian doctors are French-speaking? That is a perfectly simple question.

Miss Sabelle: There are 7,000.

Senator Laird: Out of 30,000.

Senator McIlraith: Out of 35,000.

Senator Walker: Perhaps my friend has forgotten the question. Could the MacLean-Hunter Publishing Company handle a magazine like this and publish it with the expertise that you have done?

Miss Sabelle: According to what Peter Newman of MacLean-Hunter said to Dr. Gibson, the answer would be no.

Senator Walker: Does that apply to the Star Publishing Company as well? Would it be the same answer, only more pointed than that?

Senator Davey: You are referring to the Montreal *Star* or the Toronto *Star*?

Senator Walker: I am talking about the one you are interested in, the Toronto *Star*.

Senator Laird: It could be the Windsor *Star*.

Senator Walker: They are unique. I am referring now to the Toronto *Star*. My question is: Would they, with their vast empire of magazines and newspapers, be able to publish this?

Miss Sabelle: I doubt it very much, because ideals come into our publishing program greatly. We were founded by...

Senator Walker: You have answered the question. The answer is again?

Miss Sabelle: No.

Senator Walker: Thank you very much.

Senator McElman: Perhaps that question might more appropriately be put to the MacLean-Hunter people when they appear as witnesses.

The Chairman: They will have a chance next Wednesday.

Senator Davey: I have some other questions I would like to put. Did I take an inference from what the witnesses said in response to a question from Senator Lang that you had in fact tried to dispose of the 75 per cent, you had investigated this possibility? I took, in response to a question Senator Lang posed, that perhaps you had.

Miss Sabelle: No, I do not think we implied that at all. I said that we have discussed the possibility of a foundation or an institution among ourselves and with our solicitors.

Senator Davey: You did not consider a commercial publishing corporation as possible.

Miss Sabelle: As I say, we have never discussed the...

The Chairman: I think the witnesses did say that they did not consider the operation of this magazine commercially attractive.

Senator Davey: That is their opinion. I am wondering if they have approached other commercial enterprises to allow them to make that judgment. Apparently they have not. That is all.

Senator Walker: Peter Newman has answered that question, hasn't he?

Miss Sabelle: Yes, he has.

Senator Davey: Peter Newman is an editor; he is not a publisher. I would now like to turn to the question of advertising, if I could, for a few moments. Would you mind telling us how you sell your advertising?

Mr. MacKimm: We have an advertising salesman in Toronto and we have an advertising salesman in Montreal. They contact the pharmaceutical companies, who constitute about 95 per cent of the journal's advertising. They contact their advertising departments and their product advertising managers who make those decisions as to what journals will be used. They also contact Canadian advertising agencies who create the advertising and have an opinion on what journals will be selected.

Senator Davey: Does the advertising salesman in Toronto and Montreal work exclusively for your company?

Mr. MacKimm: Yes, sir.

Senator Davey: They do not represent other publications: just yours?

Mr. MacKimm: Just *MD* (Canada).

Senator Davey: How much does a full page cost in *MD of Canada*? I am speaking of a full page of advertising.

Mr. MacKimm: I will have to just give you an approximation, senator, because it would depend on whether you are using a page in black and white, or four colour.

Senator Davey: I am talking about four colour.

Mr. MacKimm: I have not got that precise information but I could say that it is around \$700. That would be close.

Senator Davey: Presumably most of your advertisers buy for a year?

Mr. MacKimm: Yes, senator.

Senator Davey: They would buy 52 issues?

Mr. MacKimm: 12 issues.

Senator Davey: They would buy all 12 issues?

Mr. MacKimm: Yes, we hope so.

Senator Davey: What is the circulation, Mr. MacKimm of *MD* (U.S.A.)?

Mr. MacKimm: *MD* (U.S.A.) is around 190,000.

Senator Davey: How much does a full page, four colour, cost in that publication?

Mr. MacKimm: Around \$3,000, \$3,500.

Senator Davey: So, a circulation of 190,000 costs \$3,000, and a circulation of 35,000 costs \$700. Is it possible for a multinational advertiser or, indeed, for any advertiser to buy in both publications?

Mr. MacKimm: No sir.

Senator Davey: No special rate?

Mr. MacKimm: No, sir. The reason for that is primarily because the pharmaceutical companies in Canada are individually operated. There are no joint rates from Canada to the United States.

Senator Davey: Who are you competing with as advertisers?

Mr. MacKimm: In Canada?

Senator Davey: In Canada, yes.

Mr. MacKimm: Would you like the name of all the major publications?

Senator Davey: I would be interested in having some of them.

Mr. MacKimm: I have them here. They are the *Canadian Doctor*, *Canadian Family Physician*, *C.M.A.T.*, *La Vie Médicale*, *La Médecine du Québec*, *L'Information Médicale*, *The Union Medical*, *Medical Post* and *Modern Medicine of Canada*.

Senator Davey: Those are your competitors?

Mr. MacKimm: Yes, sir.

Senator Davey: Do you carry advertising other than for pharmaceutical companies?

Mr. MacKimm: Very rarely.

Senator Davey: Do the pharmaceutical companies only use medical journals to advertise?

Mr. MacKimm: Yes, sir.

Senator Davey: No other way they can advertise?

Mr. MacKimm: They cannot use consumer magazines. They cannot use the broadcasting media, TV etcetera and they cannot use newspapers. The reason for that is the products advertised are strictly for doctors. The consumer could not do anything about it, if he wanted.

Senator Davey: Have your salesmen inquired of your advertisers what their position would be if you were to, in effect, increase your rates? In other words, if this legislation does pass Parliament then you will be faced with a decision, you will have to close up shop or increase the price of your advertising. Have you investigated thoroughly what would happen if you did increase the cost of your rates?

Mr. MacKimm: Senator, our salesmen have not investigated that possibility. The reason for it is, as I stated earlier, the net effect of this bill passing would mean that *MD of Canada's* rates would double.

Senator Davey: I understand that.

Mr. MacKimm: The advertisers would abandon *MD*. They would abandon anything where the advertising rate gap is that great. I can give you an example of this, and it may be of some help in understanding our situation. There is a publication in the United States called *Medical Economics* which has been published for 50 years. It is by and large the best read medical journal in the United States, and all surveys in past years have pointed this out.

In 1975 that publication, with its largely overwhelming superiority in readership, increased their rates to a percentage which made them much higher than anything else in the marketplace. They lost 800 pages of advertising in the United States last year even though they are clearly the number one publication. So, we know that they effect of this legislation passing on *MD of Canada* would mean that the advertisers would abandon *MD of Canada*.

Senator Davey: You have not confirmed that? You have not conducted a survey of the advertisers?

Mr. MacKimm: No, sir.

Miss Sabelle would like to add a comment here.

Miss Sabelle: I should like to add something here. While we have not asked the advertisers, our advertisers have let both our salesmen in Toronto and Montreal know that they would not advertise, that it would just be too exorbitant for them. While I say our salesmen have not asked the companies, the companies have volunteered this information to them.

Senator Davey: Mr. Chairman, I have a few more questions. I do not want to be provocative, that is not my intention, but the thrust of your presentation was that there was no other publication comparable to yours, no other publication which can compete with yours. What on earth would these advertisers do, if you disappeared?

Miss Sabelle: They would feel as regretful about the situation as the physicians would. What will the physicians do without it?

Senator Davey: We are talking about advertising.

Mr. MacKimm: Miss Sabelle pointed out in her remarks, senator, that advertising would not go to other Canadian publications, the advertisers would simply not spend those dollars.

Senator Davey: As a result, what would happen?

Mr. MacKimm: To *MD of Canada*?

Senator Davey: To those advertisers, would their business suffer enormously.

Miss Sabelle: Somewhat, yes.

Mr. MacKimm: I think that is difficult to answer.

Miss Sabelle: I would say somewhat because *MD* does have very high readership. It is a publication that a physician will keep on his library shelf for years and refer to and look at later. It is not something he just looks at for the month.

If anyone buys a page of advertising in *MD*, advertising a product, a physician would be exposed to that over a period of ten to sixteen years. *MD* is part of the physician's library. This is what we have been told by them.

Senator Davey: I appreciate that point. You have made that point and made it well. I am curious to know, on this question of advertisers, if it is not entirely possible—withstanding this committee, the bill may pass Parliament—and you will be faced with a very difficult situation—I am curious to know...

The Chairman: Senator Davey, I was just wondering if you were giving an expert opinion or asking questions.

Senator Davey: I can assure you I am giving a very amateur opinion, very amateur.

Senator Walker: Are you counsel for the government today?

Senator Davey: It is an amateur opinion, Senator Walker.

Senator Walker: That is totally possible.

Senator Davey: I have a couple of other questions I should like to ask. This should be perhaps directed to the editor. In an average issue of *MD of Canada*, How much of the material is researched and written in New York, or in the United States?

Dr. Gibson: By far the largest part of it is done by writers in New York, Senator Davey.

Senator Davey: What percentage would that be, do you know?

Dr. Gibson: It is over 80 per cent, I would say.

Senator Davey: So, over 80 per cent of the matter is researched and written in the United States?

Dr. Gibson: When we come to publish this particular journal and say we are talking about railroads, I did a lot of work on that in bringing in the romance of the building of the Canadian railroads, the early directors of CPR, and the political aspect that led up to it. In other words, it varies greatly as to whether or not there is some Canadian content. If we are talking about Stephen Leacock, for instance, it is pretty well all Canadian content.

Senator Cook: I gather that with 80 per cent of the research being done in the United States, that that taints it somewhat?

Dr. Gibson: These are expert people and I could perhaps tell Senator Davey that one of the things we lean most heavily on is the New York Academy of Medicine Library built up by a great Canadian, Dr. Archibald Mallin of Queen's University.

We take the view that our journal should be as international as is medicine itself. Since all the material written passes through my hands, I can assure you that there is nothing deleterious to Canada that is published.

Senator Davey: Mr. Chairman, I had intended to ask this question last night. Dr. Gibson, what percentage of the American publication of *MD of Canada* relates directly to medicine and what percentage is related to non-medical matters?

Dr. Gibson: I think Miss Sabelle can answer that.

Miss Sabelle: Perhaps I can answer that, because I worked a great deal with the researchers. Everything in *MD of Canada* is conceived, researched and written for physicians. Therefore, there is an underlayer of writing in the articles that is very strong, and that is one reason why physicians identify with it so much. For example, if we were to have a feature on chairs, you might not think there was anything medical there. But in our research we would be sure to discover whether any physicians had ever created or designed a chair. Even if we were writing about decorative chairs, the researchers would indicate whether there were chairs that helped people who had certain disorders or certain bone structures and so on.

The first mission of the researcher is to research out the medical aspects of any topic, whether it deals with a personality such as the poet John Keats, for example, or a subject, as I have said, like chairs.

The Chairman: Senator Davey, Madame Sauvé has arrived, and in accordance with our arrangement I think we should hear her immediately. I would ask the present witnesses to stand aside for just a few moments...

Honourable senators, we will now hear Madame Sauvé, who has an opening statement to make. We are very glad to have you here, Madame Sauvé.

The Honorable Jeanne Sauvé, Minister of Communications: Mr. Chairman, honourable senators, perhaps I might be allowed to start with a pre-opening statement in order to congratulate the chairman, who I understand celebrated his 80th birthday a few days ago.

Hon. Senators: Hear, hear!

Hon. Mrs. Sauvé: I appeared before the honourable senator's committee seven or eight years back as an official of a performers' union, and I thought he looked young then, but today I think he looks even younger still.

The Chairman: Thank you.

Hon. Mrs. Sauvé: In those days, Mr. Chairman, we had all of the broadcasters against us because we were defending the rights of singers and performers in respect of sharing the revenue of radio stations. We had all of those broadcasters against us, because they did not want to recognize that some part of that revenue should be shared by those who really contributed to making it. Nevertheless, here I am today pleading for the broadcasters; but they do have a good case this time and I do so with pleasure.

I have followed with interest the debate on Bill C-58. Although its preparation began long before I became Minister of Communications, my past in the broadcasting industry has made me fully aware that this bill is a response to very real problems. So it is that I have followed the bill with a great amount of interest and I hope that I can answer the concerns you are most likely to express in this committee.

Bill C-58 as it relates to broadcast advertising will do much to foster an environment in which Canadian radio and television stations can thrive, and that is very important. I am sure you are all very familiar with the nature of the problem which has led the government to introduce this tax amendment. Very simply put, American stations located near our large cities are siphoning off advertising revenues from Canadian markets to the tune of some \$20 million a year. That figure of itself would not appear to pose a problem, but when it is put into context the threat becomes clear.

In 1974 the total revenues from advertising of the private Canadian television stations were only about \$180 million. The net after-tax profit of Canadian broadcasters amounted to just over \$60 million. The significance of that \$20 million loss is, of course, most obvious.

The annual outflow of \$20 million, amounting as it does to about 10 per cent of present Canadian television advertising revenues, is doubly serious because most of the loss occurs in Canada's two major English language advertising markets, Vancouver and Toronto. Because of the scattered distribution of population in Canada there has been a tremendous burden of cost involved in bringing radio and television service to all parts of the country.

A large part of that burden has, of course, been borne directly by the federal government through the CBC, but responsibility for extension of service outside major television markets has also been placed to a considerable extent on our private broadcasters.

The money to support the development of television in more remote and sparsely populated and consequently less

profitable areas of Canada can come from only one source: the broadcasting profits earned in large urban markets. So you can see why this government considers the loss of advertising revenues from our major television markets to be a very serious matter for them. It would, however, be a problem we would just have to put up with if the United States stations involved had a right to penetrate Canadian markets; but they do not have such a right. U.S. stations are not licensed to operate in Canada. The FCC licenses them to service the communities in which they are located, and the CRTC issues licences to Canadian broadcasters to service Canadian communities. Accidental spillover of signals between our two countries is one thing. It is inevitable. We know that. Canada and the United States have always co-operated fully in respect of the spillover problem in order to ensure proper channel allocations and to minimize interference. But commercial exploitation of advertising markets in another country is something else entirely. It not only amounts to unfair and unlicensed competition, but it also threatens to render ineffective the basis of our licensing system.

Our Broadcasting Act imposes heavy obligations on our broadcast licensees, as I have already pointed out. In return, the CRTC considers it essential that in issuing licences it take into account the ability of the market to support the licensee. Obviously, any such estimate will be ruined by unlicensed competition.

Not only are United States stations not licensed to serve Canadian markets, they do not even, in most cases, own the Canadian rights to their programs. In Toronto, for example, about 90 per cent of the programs shown on the Buffalo commercial stations are also shown by Canadian broadcasters. The Canadian broadcasters have, in each case, paid for the exclusive right to broadcast the program in Toronto. The United States border stations have paid only for the Buffalo rights. They are, indeed, reaping windfall profits from Toronto, of which not a penny goes to the United States networks that provide the programs, nor to the producers of the programming, nor to the actors or writers or directors who work on the programming; because the stations do not produce these programs, of course.

If you are still doubtful that this government should be involved in the cross-border advertising problem, please consider for a moment what would be the reaction of the same United States border stations if the situation were reversed. If, instead of there being a string of small United States towns located near larger Canadian population centres, our border demography were reversed, then U.S. advertisers would find it attractive to use Canadian broadcasting outlets to reach their American markets. Would not the United States border stations protest? I suggest that they would, and that the United States government would take steps to protect their broadcasting stations just as we have done in Canada.

Senator Walker: That is a conclusion of yours. Have you any data to support that conclusion?

Hon. Mrs. Sauvé: No. That is just a hypothetical problem that I am posing to you.

Senator Walker: Truly hypothetical.

Hon. Mrs. Sauvé: If the situation were reversed, do you not think the United States would move in to protect their own broadcasters?

It has been claimed that this bill may be harmful to the normal close relationship between Canada and the United States, and that it is somehow an affront or provocation. I think such a claim confuses the United States attitude to this bill with its stand on some of the other aspects of the border television issue.

The United States government has never objected to the policy expressed in clause 3 of this bill. Despite an energetic lobby conducted by United States border station interests, the United States State Department has consistently refused to treat the bill as anything other than a legitimate use of Canadian tax law. The bill has not been the subject of discussion in talks which have taken place between our two countries on the border advertising dispute. The United States government has not objected to it, and indeed, it has no grounds for objecting. The only United States or American interests which will be harmed by this bill are the pecuniary interests of the border stations themselves, and as I have demonstrated, they neither need nor ought to be protected by us.

To say that this bill will provoke the United States into retaliation, I think, is to raise a groundless fear. It is, moreover, a slur on the character of that country to imply that it would so misconceive its own interests as to react to a measure which does not harm it. The relationship between the United States and Canada will, in broadcasting as in all other matters, continue to be characterized by full and frank co-operation on questions of mutual interest. That is why, for example, in the context of the border advertising dispute, this government has agreed to meet with the United States government in order to examine alternative means of carrying out Canadian broadcasting policy objectives.

It is understood by the United States government, and it must be emphasized here, that Bill C-58 is not part of these discussions. This is with regard to the commercial deletion. We have discussed this with the Americans, and I have discussed it myself with the American ambassador. They understand that policy very well. They do not agree with it, but they understand it.

Senator Macnaughton: I hate to interrupt, but some time, would you elaborate on how far those discussions have gone? Or is this just a desire to hold discussions? Have you had any real round table discussions?

Hon. Mrs. Sauvé: There have been two meetings, I think.

Mr. M. F. Yalden, Deputy Minister, Department of Communications: There has been one meeting involving the State Department, the FCC, External Affairs, CRTC, and DOC, all together round a table, and there have been a number of meetings at which the United States embassy people have called on various officials.

The Chairman: Was that the meeting that was held in January of this year?

Mr. Yalden: That is right, sir; but subsequent to that, as I say, the United States embassy representatives have spoken to Mr. Boyle, to myself, and I believe to the Under-Secretary of State for External Affairs.

The Chairman: I understand that arising out of that meeting there was a conclusion reached that the private stations—that is, the United States border stations—should submit a proposal dealing with both the problem of deletion and the problem of Bill C-58.

Mr. Yalden: I do not think, sir, that that is entirely accurate.

The Chairman: Well, will you tell me where it is lacking in accuracy?

Mr. Yalden: Yes, I will, Mr. Chairman. There was no conclusion reached on two sides that the border stations should do this, that or the other thing. The border stations were not a party to those discussions. It was agreed that the American side would consider what had been said at the January meeting, and by "the American side" I mean the State Department and the Federal Communications Commission, and not the border stations; and, having considered what had been said in the January meeting, and in the light of whether they had any further propositions to put forward to the Canadian side, there could be another meeting of the same group. It was also understood that if the border stations had anything to say at any time during this process they would be welcome to say whatever they wished to the CRTC; but it was not, and this is the distinction, I think, sir, understood, nor was it endorsed or proved that somehow or other the Canadian side and the American side, at the intergovernmental level, had agreed that the Buffalo stations should do something. We never agreed to that.

The Chairman: Just let us stay with my question. My understanding is that at the meeting of January 13, 1976, the subject was commercial deletion, which is being done, to some extent, by at least one Canadian border station, that is, deleting the commercial advertising coming with the American programs into Canada. The notes I have indicate that when that meeting was over there was an agreement that a further meeting would take place in the near future between appropriate Canadian and United States officials to consider alternative means for achieving the objectives of the Canadian broadcasting system.

Mr. Yalden: That is right, sir.

The Chairman: What I said was that subsequent to that, in or about March or April, 1976, a proposal was submitted by the United States border stations, and this was discussed at a meeting at which you had, as I understand it, the same representatives, or at least representatives from the same bodies as were at the original meeting.

Mr. Yalden: No, sir.

The Chairman: Well, my understanding is that you had a delegation from the United States of about seven or eight people, and a delegation from Canada, which included Andy Watt, of the Department of Communications, and Harry Boyle, chairman of the CRTC, and this proposal was put forward. Some members of the Canadian delegation, in order to clarify the scope and effect of the proposal, put a question.

Mr. Yalden: May I say this? You said that the group was the same, Mr. Chairman. The American group, as I understand it, consisted exclusively of the border stations. There was no one from the FCC and no one from the State Department. The Canadian group was the same, but not the American group; therefore it was not the same group as met in January.

The Chairman: Well, what the Americans, being from the border stations, as I understand it, were to submit, arising out of the first meeting, was a proposal for resolv-

ing both the question of deletion and the question of Bill C-58.

Mr. Yalden: That was not my understanding, sir. The American border stations were not present at the first meeting.

The Chairman: The notation I have—and you can tell me whether it is accurate or not—is that in the course of the discussions after the proposal was submitted, this was stated to the meeting by the chairman: “In the event that neither Bill C-58 nor commercial deletion is implemented, the U.S. border stations listed below would take the following steps,” and then there was a discussion on what the steps were that were going to be taken—in other words, their proposal.

Mr. Yalden: I know their proposal was discussed, but I cannot say whether it was discussed in exactly the terms you have mentioned.

The Chairman: We are not using diplomatic language at the moment.

Hon. Mrs. Sauvé: If I may, I have not been a party to these meetings at all, but I know from the reports I get that people are just in the process of trying to identify what they feel might be done. But I don't think any of these proposals at this present time, if you want to call them proposals, have been sufficiently studied that any of us can come to any conclusion on them.

The Chairman: I was mentioning these factors only to show that there were serious negotiations going on—at least the U.S. border stations thought there were—and the question is if we are going to go ahead with Bill C-58 it may interfere with those negotiations.

Senator McElman: Mr. Chairman, could we have the witnesses identify themselves?

Senator McIlraith: I think we should have it on the record.

Hon. Mrs. Sauvé: On my right is Mr. Yalden, Deputy Minister, Department of Communications. Next to him is Mr. Ken C. Stein, Director of the Policy Secretariat; and then there is Mr. A. M. Watt, Policy Analyst.

Senator Macnaughton: Mr. Chairman, I started this rumpus, and I did not mean to do it in that way. From your departmental viewpoint it is one thing, but from the point of view of legislators, both in the House of Commons and the Senate, when we go to the United States or when they come here every year, if not twice a year, we have this discussion of the two viewpoints. We have recommended, not once but many times, that instead of just sending communications from one ministry to another you get around the table and settle the thing. It has to be settled. Talk is all right, but let us have some conclusions.

Hon. Mrs. Sauvé: If you are inferring that these meetings are not going on at a pace that would be sufficient to allow us to come to an early decision, I think both sides recognize the problem as being a very difficult one, and it would be very hard to reconcile the different interests. I think we all realized that from the beginning. That does not mean that we are not trying hard to find some solutions which would be satisfactory to both parties while protecting Canadian broadcasting policies. I think the

Americans, at least the people on the government side, and they are the ones with whom we are discussing, do understand the reasons for which we have been brought to do this. They realize that our industry is a very fragile one, that it has to be protected in order that it may come into all the revenues that it would be entitled to have. I think they understand that and they understand that this policy was not intended to be anti-American in any way, but it was a necessity for the protection of our industry. I think that is one point that we have been able to make to them. That has made for a better atmosphere for these discussions and I think we have gained some ground. We have established that very clearly. But I realize it is an irritant to the Americans.

Senator Macnaughton: Well, we appreciate that and we are just suggesting that you use your charm, of which you have a great deal, and your persuasive power to speed it up.

Senator Laird: You are aware that the reverse situation exists in Windsor where CBET-TV broadcasts to Detroit and gains considerable revenue from there.

Hon. Mrs. Sauvé: We are aware of the Windsor situation and it is unique. It is mostly that way because originally that radio station belonged to the Americans and they used it for the American market.

Senator Laird: And now we own that station—the CBC.

Hon. Mrs. Sauvé: We are aware of that Windsor situation.

I want to deal with a few other points very briefly. I think I would like to answer the obvious objection that this bill would fail to repatriate advertising revenues because there is no effective advertising space available in Vancouver. I want to say that this is a very short-sighted argument and it looks to me as though it is an argument just to ask us to preserve the status quo. I think if we do not take steps to help Canadian stations to keep the revenues to which they are entitled, we will forever depend on U.S. border stations. So one of the results of this bill will be the creation of new, independent, healthy Canadian stations.

But to answer the criticism directly, there are effective Canadian outlets available. None of the major stations is sold out completely. Of the newer stations, the Global network has been doubling its audience share annually to the point where its viewing share in Toronto is comparable to that of KVOS in Vancouver, and there is no reason to doubt that other stations could not do likewise if we gave them the chance. We have specifically allowed for the broadcasting provisions of the bill to become effective only on proclamation and this was designed to protect advertisers by delaying the bill's implementation until the new English-language station in Vancouver was operating. But now the new station has been licensed and should be in operation in the fall.

The bill will be effective, if not in the short-run, at least in a few years. The incentive it provides to Canadian businessmen to patronize Canadian stations is essential if our newer stations are to survive and face the competition from the stations across the border. In fact the bill has already had significant effect in determining the allocation by Canadian advertisers of next year's budget. I hope the testimony of the witnesses before you will persuade you that the bill does offer some hope of success.

In closing I would like to thank you for this opportunity which you have given us to appear before you, and urge you to give favourable consideration to the measure.

Senator Laird: Mr. Chairman, could I pursue this problem of ours in Windsor? Madame Minister, I do not want to appear insular, but the ramifications of this bill extend much beyond the broadcasting industry itself. For example, in our area certain industries are so largely dependent on American patronage that they simply must advertise on American television across the river. For example, the Windsor Raceway and some of the eating spots, and so on, are 85 per cent patronized by Americans; and, of course, this is another ramification of this problem which does not make it all that simple of solution.

Hon. Mrs. Sauvé: I think if you are going to be logical, Windsor will have a problem. The Americans, if it is in their interests, will decide not to use the Canadian station in Windsor in order to broadcast on the American market and will send all the business to the American station in Detroit. I don't know if there is any advertising time available in Detroit; perhaps there is none available, but I have not surveyed the situation.

Senator Laird: Yes, there is.

Hon. Mrs. Sauvé: They might still wish to use the Canadian stations. However, I agree with you that if you are going to be logical, we would not act but the Americans might decide not to use the station, but those are business interests which will be reconciled bilaterally by the people in Windsor. However, I agree that the people in Windsor do become caught up in this problem.

Senator Laird: Yes. I go a step further and say that anything like this invites retaliation, not only in the field with which we are concerned in this bill, but massive retaliation in other economic relationships. That is what worries me.

Hon. Mrs. Sauvé: Oh, no; I think the fear of massive retaliation is exaggerated. This is a matter of \$20 million, which is very important to us but in the overall bilateral relationships between either the American government and ourselves, or the American businessmen and ourselves, the importance has to be considered in perspective. The \$20 million is terribly important to our broadcasting system. I have made that point very strongly to the American Ambassador, who, I believe, had not realized how fragile our own industry was and how we were in this very special situation because we must have our own broadcasting system. We have to make it healthy and we have to have policies that protect it.

Now, no country likes all these protective measures, but we know that they must be taken in some circumstances. We must minimize them, but protective measures are the only way we have found to do these things. I do not find them particularly attractive, but I know there are no other means now. However, I think we can make the Americans understand that we must protect our own industry and I have indications that they do already understand it. But it is visible, it is irritating and I intend to go to the United States at some point and make a major speech with respect to this in order to explain it to the Americans. I do not believe it will make them happy if the bill passes. They are not happy with it; far from it, but, at least, I think we can go into some effort to make them understand what we are

doing so that they do not view it as a provocation, or anti-American action.

Senator Laird: Well, I am very glad to hear of your personal interest, because the whole thing worries me as being another or a series of irritants. I am not speaking academically now; I know from personal experience that this is getting the Americans down. As I stated yesterday to one of the witnesses, contacts which I have had spoke of their concern with respect to the Foreign Investment Review Agency and the provinces taking over such things as potash in Saskatchewan, and all this kind of activity, and then on top of that comes a bill such as this.

Hon. Mrs. Sauvé: Which is visible.

Senator Laird: Which is visible and irritating to them, and it worries me immensely.

Hon. Mrs. Sauvé: I can understand that but, of course, if we pile them all up we have a great deal of discussion going on between the United States and ourselves.

Mr. Ken C. Stein, Policy Secretariat, Department of Communications: With reference to your question with respect to Windsor Raceways, if the Canadian advertiser can demonstrate that he is using a U.S. station to attract Americans to his product and can demonstrate to the Department of National Revenue that it was advertising on a Detroit station to attract people from Detroit to the raceway, it would be exempt under this legislation.

Senator Laird: Have you by any chance the specific clause? This interests me very much.

Mr. Stein: It is contained in clause 3 of the bill, with reference to section 19.1(1), reading as follows:

... no deduction shall be made in respect of an otherwise deductible outlay or expense of a taxpayer made or incurred after this section comes into force for an advertisement directed primarily to a market in Canada ...

Senator Laird: Yes, this interests me; thank you.

Senator McIlraith: Madame Minister, in making your case you referred to the \$20 million advertising revenue. You then separated the problem into its aspects relating to the Toronto area and to the Vancouver area.

Hon. Mrs. Sauvé: Yes.

Senator McIlraith: I would like to discuss one or two points in relation to the areas separately. Taking the Toronto area and the obvious problem there, I assume that it is a fair conclusion to draw that the advertisers advertising on these American stations at the present time are doing so because it is more advantageous commercially and beneficial to them. Is that a fair statement?

Hon. Mrs. Sauvé: They reach a bigger audience there if they advertise on the American stations. They also receive the tax deduction benefit in any event, so they are not inclined to go to the Canadian stations.

Senator McIlraith: My point is that it is more advantageous at the moment, until our Canadian broadcasters in the area are strengthened and built up. Is that it?

Hon. Mrs. Sauvé: We have seen that when Canadian stations begin to grow their ratings do increase, so I think that they can reach that audience just the same by using Canadian advertising.

Senator McIlraith: That will be so ultimately, but at the moment it is true that it is more advantageous, or may be more advantageous, to advertise on the American stations.

Mr. Yalden: If you are referring to Toronto, CTV, CBC and now, I am told, Global are ahead of the American stations.

Hon. Mrs. Sauvé: So it would be more advantageous for them to use the Canadian stations, but they may not realize it. I would be surprised at that.

Mr. Stein: In the last six months the new stations in Toronto have significantly improved their market share in the Toronto area and, as a result, advertisers are going to the new stations.

Senator McIlraith: You are aware that this bill was introduced in the House of Commons on April 18, 1975, so perhaps I should phrase my question differently. Would it be a fair assumption that at the date of introduction of this bill Canadian advertisers in the Toronto area seeking to reach the Canadian market could advertise more advantageously through the American stations?

Hon. Mrs. Sauvé: It depends on the ratings at that time, which I do not know. These advertisers look at ratings and go where they think they will reach more people and if the price is right will advertise there.

Senator McIlraith: And they do go to the United States stations.

Hon. Mrs. Sauvé: Yes, but the indications that we are now receiving are that the market is improving so much that, indeed, it would be in the interests of these advertisers to go to the Canadian stations.

Senator McIlraith: Maybe now; that is the point I was going to come to. However, there seems to be lack of clarity on my part in making it clear. The point is that eventually you hope, whether it has happened now or will, that when this revenue is available to Canadian broadcasters they will be in a position to not only serve the advertisers equally well or better, but they will serve better general Canadian interests by having the broadcast facilities.

Hon. Mrs. Sauvé: The experience of the old stations is that if they are able to offer alternative Canadian programs of good quality the people flock to those stations and they tune in because they like them. In my opinion our broadcasting policy has been successful. People do like to look at Canadian programs if they are good enough and if they fit right into the interests of Canadians. That policy has been successful and we have to continue to give the stations the protection they need in order that they may improve that situation, because we do not want to abandon our broadcasting policy.

Senator McIlraith: I agree with the argument, but we are coming at it in a different way and I am sorry if I was obscuring what I am coming to, or did not make it sufficiently readily apparent. The point is that if the Canadian stations are put in a position to properly service the market adequately they will do it, and it is to the advantage of all of us. You are seeking in the bill to do that by indirectly controlling or directing the activities of the advertisers, because that is the main source of revenue, or indeed virtually the only source of revenue for these stations.

Hon. Mrs. Sauvé: That is exactly the intent of the bill.

Senator McIlraith: That is my point.

Hon. Mrs. Sauvé: To repatriate revenue from advertising which ought to have been placed on Canadian stations.

Senator McIlraith: It is for this very laudable purpose, so we are at one on that. That is the point I was seeking to establish.

I now want to take you to the Vancouver situation, and in this context discuss the Vancouver situation only, in isolation from the Toronto one. The Vancouver situation is that a very great proportion of the television revenue is going into the American stations to serve the Canadian market. You spoke of benefiting the broadcasting industry, the stations. You, if I may say so, seemed to co-relate the two exactly. What I want to get at is a separation. As I understand it, the revenue in the Vancouver area is physically contained or kept on the Ontario side in the corporation, is that correct?

Hon. Mrs. Sauvé: In Vancouver?

Senator McIlraith: Yes.

Hon. Mrs. Sauvé: I do not understand your question. In Vancouver it is kept on the Ontario side? On the Canadian side you mean.

Senator McIlraith: I am sorry, on the Canadian side. KVOS.

Hon. Mrs. Sauvé: You are asking what happens to the revenue?

Senator McIlraith: In the method of processing the revenue from the advertiser through to the benefit of the broadcasting station, it is not paid directly to the broadcasting station immediately, as is usually the case. Is that correct?

Hon. Mrs. Sauvé: It is not paid directly to the broadcasting station. The station is making the money.

Mr. Yalden: They do have a subsidiary established in British Columbia which collects the money.

Senator McIlraith: That is what I wanted to establish. They do have a Canadian subsidiary and the money is physically contained on the Canadian side through this subsidiary?

Mr. Yalden: Yes.

Senator McIlraith: And then dealt with from there on?

Hon. Mrs. Sauvé: Yes.

Senator McIlraith: I am not certain whether you were active in this at the point at which the legislation was being prepared, but had you looked at other methods of getting that Canadian advertising revenue diverted into the Canadian broadcasting industry, drawing a distinction between the industry and the stations?

Hon. Mrs. Sauvé: I think you would agree that, if you want to repatriate revenue which should come to Canadian stations, the first thing to do is not to make it easier to go anywhere else. I guess the first step was to have that disallowance, to have that bill. It is very important not to make it as easy to let the Canadians advertise as easily in the United States as they would in Canada, so I think you have to eliminate that.

Senator McIlraith: My point, Madame Minister, was that I was suggesting this was not a matter of repatriation of the Canadian revenue; it was a matter of finding a method—maybe this is the correct one—of getting that revenue directed for the benefit of the Canadian broadcasting industry, to strengthen it and do the things you have so ably put forward, and which become so readily apparent in the Toronto area. What I was seeking to get at was how fully other methods of containing or continuing to contain that revenue in Canada have been explored or examined with a view to using other methods in relation to the British Columbia situation.

Hon. Mrs. Sauvé: Many methods were suggested, such as the creation of Canadian subsidiaries; that was looked at. However, the amount of revenue that you would keep in Canada with that method, of creating a Canadian subsidiary, would never bring to the broadcasting industry itself indirectly the revenue that it can get from the advertising activity. All you do with a Canadian subsidiary is to get the taxes out of it, and that goes to the government; it does not go directly into the broadcasting industry. I do not know of any other method of doing this. I think we facilitated the situation for broadcasters who wanted to broadcast on American stations by allowing them to deduct it from income tax. We had to remove that. That is the first thing to do.

Senator McIlraith: That is not the point on which I am seeking to get an explanation. I am looking for information in an area where I do not have any. I get the suspicion here that the legislation is really oriented towards the Toronto problem, without looking at imaginative possible alternative methods to deal with the problem that exists in other areas.

Hon. Mrs. Sauvé: It is not only Toronto.

Senator McIlraith: I know that.

Hon. Mrs. Sauvé: It is Vancouver and Montreal as well.

Senator McIlraith: Quite, but let us address ourselves to the Vancouver situation for the moment. I would like to know exactly what alternative methods of correcting this problem in Vancouver, which has to be corrected in order to benefit the broadcasting industry, have been considered. You will note that in my questions directed to the Vancouver area I have stuck to the broadcasting industry, not stations.

Hon. Mrs. Sauvé: You could delete the commercials there too.

Senator McIlraith: We have all this money sitting in Canada in a Canadian corporation; we have direct legislative control over it, as well as over the advertisers. What precise propositions were looked at with a view to having that revenue used for the benefit of the Canadian broadcasting industry, including the stations, and including some other aspects of the industry, which I think are being neglected and need help in Canada?

Hon. Mrs. Sauvé: I can see what you might be thinking of, that these Canadian subsidiaries first of all pay taxes; secondly, there has been a proposal that they might set aside a certain amount of money which could be used as a fund to finance Canadian productions. However, I do not find that a very satisfactory proposition. First of all, it still

is only a proportion of the revenues that can be obtained if the advertising is done directly though the Canadian stations.

Senator McIlraith: I understand that. It is only a proposal. The tax part of it, of course, does not draw off enough of the revenue.

Hon. Mrs. Sauvé: No, nor does the fund; the fund is only a proposition.

Senator McIlraith: You speak of "the" fund though.

Hon. Mrs. Sauvé: A fund.

Senator McIlraith: Unlike the other half of the bill, which was intended to relate to the periodical press, the part that deals with the broadcasting industry relates to a body that is under regulatory control in Canada and under regulatory control in the United States, the United States part of it. That distinction being there, I would like to get from you at some point—you may wish to discuss it with the officials—what, if any, examination was made of methods that would use the regulatory controls in the two countries? Admittedly it would have to be in the two countries, because we have no regulatory control over the United States. What thought was given to that? I would like to know if we have developed any propositions on that method of solution; and if we have developed them, were they put forward and discussed with the appropriate authorities in the United States? If we had not developed any such proposition, was it a matter of oversight or was it a matter of considering them thoroughly or was it a matter of simply adopting this taxation method to bring it back into the broadcasters?

The Chairman: Senator McIlraith, you can shorten up those two questions very easily. One question would be: Were any other methods of dealing with this situation considered? If so, what were they?

Senator McIlraith: Thank you, Mr. Chairman.

Hon. Mrs. Sauvé: The senator suggested that some kind of an agreement or method of dealing with this might have been developed with the CRTC. Well, the CRTC has no authority to license any American station operating in Canada or really any subsidiary of any American station. So through the licensing process I do not think we can deal with that at all. The CRTC has consistently had a policy of ensuring that our broadcasting industry is in the hands of Canadians for the most part. So this would not come under their jurisdiction. They would not be licensing an American station or a subsidiary of an American station.

I do not see how through the two regulatory bodies, the one in the United States and the one in Canada, any kind of method of dealing with this could be arranged. It would be a very complicated matter. We license with different objectives in mind. I do not see how the two regulatory bodies could come together or how that could be achieved between the two countries.

With respect to the time prior to the introduction of this bill, I will ask the officials to answer your question whether any other method of dealing with this had been considered, or why it was not considered at that time.

Senator McIlraith: Before they answer that, could you clarify one thing for me. Of course, the CRTC cannot license American stations and so on; that is elementary.

Hon. Mrs. Sauvé: It is elementary, but we have been going on letting them operate in our territory, and in the face of that we have not acted.

Senator McIlraith: I have gone on a bit with the licensing process over the years, too. I wanted to ask you if you had looked at the air industry, where there is a licensing authority in each country as well as a regulatory authority, and where things relating to the industry are dealt with through the agreements which have been made between the countries whereby the regulatory authority in the other country, as the case may be, operates in a certain way on certain points.

Hon. Mrs. Sauvé: Well, we do have that for the air waves on the border, for the spillover of signals, and we do have agreements so that there will be no interference between Canadian and the American signals. We do have these agreements across the border. That is for the technical aspects of it. Perhaps the deputy minister will deal with the other part of your question.

Senator McIlraith: I am not saying it is necessarily a better way of doing it, but I just wanted to explore it.

Mr. Yalden: One other solution canvassed, Mr. Chairman, was the suggestion that Canadian stations not be permitted to solicit advertising in the United States and that United States stations not be permitted to solicit advertising in Canada. This could be done on our side but the FCC response was that they could not do that. I might add also, sir, that the FCC at the famous January meeting did not show any substantive criticism of this bill.

Senator McIlraith: That was not the point I was raising at all. Just one other thing: Is it not a fair assumption that in the Vancouver area the advertisers will be temporarily impaired in the value of the advertising to their own industries? That is, the advertisers who are not in the broadcasting end of it. That is assuming you proclaim this act very quickly before the Canadian stations are in a position to service the advertisers. Under the act, theoretically, you could, if it were passed, proclaim it immediately after third reading.

Hon. Mrs. Sauvé: Yes, but we have indicated that we will give time for those contracts to run out. We give one year's lead time, because we know that some contracts are decided one year in advance.

Senator McIlraith: Theoretically, apart from the undertaking you have given, those advertisers could be damaged. That is the whole purpose of the delay.

Hon. Mrs. Sauvé: I don't think so. They will have a new station which will be operative by the time this is proclaimed, and we are giving the lead time so that the contracts will run out and there will be time to negotiate new contracts in the proper place.

Senator McIlraith: Why are you giving the lead time if it was not possible for them to be damaged?

Mr. Yalden: At the time the bill was introduced it was possible. That is why the lead time was given.

Senator McIlraith: I think your evidence was that the station will not be on the air until this fall.

Hon. Mrs. Sauvé: But we must give the lead time, otherwise they will be damaged.

Senator McIlraith: Exactly. That is the point I was coming to. The legislation, coming in the form in which it is, theoretically enables you to damage those advertisers, and in order to protect against that you took the authority to proclaim it in the way you have. You have given your indication that you would not.

Hon. Mrs. Sauvé: Yes.

Senator McIlraith: That is the point.

Hon. Mrs. Sauvé: It depends on the date on which it will come. There is a specific date in the year when advertising time is sold on television. We look at those dates.

Senator McIlraith: Exactly.

Hon. Mrs. Sauvé: So we look at those dates and we will have a date of proclamation which will allow for these people.

Senator McIlraith: That is the point I was bringing out, why it was necessary for you to give that undertaking. But your official seemed to deny the point, and I am mystified why.

Mr. Yalden: I am not denying the point at all. I am saying that at the time the bill was introduced, which as you yourself pointed out, sir, a short while ago, was last year, it was necessary to have that proclamation clause in order to protect the stations. But this is a year later.

Senator McIlraith: And it is still necessary to have it because the station is not operative yet.

Mr. Yalden: It will be in the autumn.

Senator McIlraith: So you are coming right to my point now that if the bill passes in the normal procedure—well, it is hard to estimate parliamentary time, as we well know, but if it passes promptly it will be necessary to rely on the minister's commitment, which has very properly been given. That is the point.

Hon. Mrs. Sauvé: We understand that some advertisers have been started to realign their contracts in the light of this.

Senator McIlraith: It is a gradual process. You understand that in this bill there is no corresponding gradual process.

The Chairman: Senator McIlraith, the bill does not provide any time limit.

Senator McIlraith: I understand that.

The Chairman: By way of lead time. It simply means whenever the minister decides that the market is being taken care of.

Hon. Mrs. Sauvé: And I have indicated that clearly.

The Chairman: My only objection to that was that I thought Parliament should make that decision.

Senator McIlraith: And there is a secondary objection. The minister dealing with the part of it that comes under the broadcasting area has given an indication that that point will be taken care of.

Hon. Mrs. Sauvé: Properly.

Senator McIlraith: But in the other part of the bill we have nouch undertaking, as yet. That is what I was seeking to establish.

Senator Cook: I think it is a dangerous policy to suggest that citizens must change their course of action on the introduction of a bill. That is not lead time. The bill may be around for two or three years and may never be passed. I can see having to govern your actions at the time the bill is passed, but not when it is introduced.

Hon. Mrs. Sauvé: We are optimistic.

Senator Macnaughton: I cannot quite understand one point. On the one hand we have initiated very serious high level talks with the government of the United States to regulate this point of friction. It is a very serious matter between the two countries.

Hon. Mrs. Sauvé: May I make a distinction, senator? What we are discussing with the American authorities is a matter of commercial deletion, but not this bill. They have never brought up this bill for discussion. We are discussing commercial deletion.

Senator Macnaughton: My other point is that we have started these negotiations and yet on the other hand we are racing ahead with this bill. How do you bring the two together?

Hon. Mrs. Sauvé: They are two different matters. Commercial deletion is one problem about which we have initiated discussions with the American Government and the FCC, and this bill is a different matter which is not unrelated, mind you, but they are two different areas and the American Government does not contest our right to legislate in this area. They have never brought it up. They have only brought up the matter of commercial deletion which is a policy started by the CRTC to protect the industry and made the granting of certain licences conditional upon the deletion of commercials.

Senator Macnaughton: Of course the U.S. government will not contest our right to do what we want within our own country at the moment, but what about the future? They might start initiating similar legislation of their own and so we have point and counterpoint all the way through.

The Chairman: Well, if they ever did that, we have a number of Canadian stations who are making use of American stations.

Mr. Yalden: Well, Mr. Chairman, that applies mostly to one station in Windsor.

The Chairman: But there is a lot of advertising on American stations by the CBC.

Hon. Mrs. Sauvé: Well, that is all right. If you are advertising to the American market, that is to say that if you are in Montreal and you are advertising in Plattsburg and asking people to come and eat at the Queen Elizabeth, well then that is all right.

The Chairman: But the same argument exists the other way except that this time you are not taking money out of Canada to the United States, but you are taking money from the United States into Canada. There are two sides to every coin.

Hon. Mrs. Sauvé: But that is a different question. In this matter of Bill C-58 you have Canadian advertisers who

want to reach the Canadian market and in order to do that they advertise in the United States on American stations. Now if you want to reach the American market, and you go to American stations and buy time there, there is nothing wrong with that. It happens today and the Americans do the same thing too.

The Chairman: As long as they don't start to regulate you.

Hon. Mrs. Sauvé: I guess the stations are allowed to take advertising money that is destined for the market they are licensed to serve.

Senator Smith (Colchester): Madame Minister, I am a little concerned—in fact, more than a little—about the apparent reliance on the fact that the United States State Department has not officially mentioned this international irritation. If there is any, because after all, that may not mean anything except that the irritation has not grown sufficiently or exercised sufficient pressure to persuade the State Department to do something. For instance, I believe,—and I would like to ask you if this is true—that there are certain U.S. senators who are now, or at least have been very recently, pressing the Secretary of State to take some action with regard to these various matters, and the fact that the pressure has not succeeded in persuading the Secretary of State to do something does not seem to me to be particularly conclusive of the fact that there is no irritation.

Hon. Mrs. Sauvé: I think I can say that the irritation has in fact diminished with regard to commercial deletion. This has nothing to do with the bill. But, as you indicate, it is not perhaps completely unrelated. They have never brought up the subject of the bill. It is a question of a privilege that was given to people and we want to stop that privilege. So they have not discussed that. But the matter has been brought up. When Mr. Kissinger came to visit us, he mentioned the matter of commercial deletion and explanations were given. He was reassured that meetings were going to take place between officials of the FCC and officials of the CRTC and our department. I think I can tell you that on the official level people are satisfied that this thing is being discussed in the proper place and if we can come out with some kind of a solution that is mutually agreeable, I am sure we will be glad to come to it. But, as I said, that has nothing to do with this present bill.

Senator Smith (Colchester): The point I am trying to make is this, that one cannot necessarily judge the degree of irritation an action causes to another person by the simple fact of whether or not some official protest has been made. One must inquire as to what the feelings are of the persons affected and how they feel about the results. For example, we may find in the future that we want something that lies within the power of the United States to grant or refuse. And this irritation may have proceeded far enough to make them regard our request in an unfavourable light without the necessity of reaching the stage where they will make an official protest.

Hon. Mrs. Sauvé: Well, of course, External Affairs is responsible for looking at the general stance of our relationship with the Americans and trying to measure what is more irritating at one time or another. We like to take the advice of External Affairs on this, and they come in on these discussions and help us to iron out our difficulties with the Americans. But I think I can give some insight to the reason why this has become so visible. Anything con-

nected with broadcasting is very glamorous. You have all the media who immediately throw this into the news and everybody hears about it. A number of senators where these stations are located have been, of course, seen by the broadcasters and they deal with these stations constantly, for their own needs, to speak to the people and to inform the people in that state about what they are doing. So there is a close relationship between these politicians and the stations in the sense that they need each other. I think that is one of the reasons why it has become so visible. It would be the same here if the government were to devise some policies that broadcasters did not appreciate. I am sure it would be a very visible problem in Canada. I think that is one explanation as to why it has been so highlighted. But the degree of irritation that this causes to the total picture of our relations with the United States, I think, has been exaggerated and should not be exaggerated.

Senator Smith (Colchester): If I may ask this without trespassing on the area of confidentiality, has in fact either the Department of External Affairs or the minister been asked to give an opinion as to the effect of this irritation or whether an irritation exists or not?

Hon. Mrs. Sauvé: I think they have been giving explanations, first of all, to Mr. Kissinger. This matter was brought up in the press conference and he said it was discussed with Mr. MacEachen. Our own people in the embassy in Washington in their relationships with people from the State Department explain this stance. I had a conversation with the American ambassador to explain these things. So at all sorts of levels we are doing the best we can to iron this out.

Senator Smith (Colchester): Perhaps I did not put my question very clearly or perhaps I did not follow the answer, but my question was specifically this, and I am not asking you to trespass on any area of confidentiality; has your department or have you yourself sought the advice of the Minister of External Affairs or his staff as to whether there is a degree of irritation caused by this bill?

Hon. Mrs. Sauvé: Yes, of course, we are in constant consultation, and the officials of External Affairs are present at these discussions. As a matter of fact in all these questions which relate to another country, External Affairs has a lead on this.

Senator Austin: Could I ask you, Madame Minister, to review with the committee the conditions precedent to the coming into force of section 3 which was referred to? It is section 3, which is referred to in clause 4(2) of the bill.

Hon. Mrs. Sauvé: What is the question in connection with that?

Senator Austin: My question relates to the conditions precedent, which you will want to see occur before proclamation of section 3?

Hon. Mrs. Sauvé: We were thinking of two conditions: First of all, the lead time needed in order to allow the contracts to run out; secondly, we thought it would be necessary to wait until there is a new station in Vancouver. Of course, it has now been licensed and we know it is going to operate in the fall, so that the advertising will be available.

Senator Austin: So, do you see a time during this summer when the proclamation will be effected?

Hon. Mrs. Sauvé: Well, I cannot give you a date, but I am giving the kind of date I can think of, because I do not know when this bill will pass. However, if it does in May, when the time has been sold for the next year, obviously we must pick another date.

Mr. Yalden: There is another provision, senator, in section 3, for an exemption of one year for contracts entered into before the proclamation of this section. Therefore, whenever the section is proclaimed the advertiser will get one year. It will be the length of the contract or one year from the date of proclamation, whichever is the shorter period.

Senator Austin: Can you tell us at this stage whether Western Approaches has been successful in acquiring advertising commitments?

Hon. Mrs. Sauvé: Western Approaches?

Senator Austin: That is the new television station in Vancouver. Do you have knowledge about their experience?

Mr. Yalden: Mr. Stein says they are just starting their sales now. This is the time of year for sales for next autumn.

The Chairman: Of course, Senator Austin, it is not just a case of when does a new station start to operate in Vancouver. The explanation given by the minister on second reading was that it will be when the minister is satisfied that the progress has been such that the needs of the public are adequately taken care of. Now we have the complex situation of KVOS, which has the substantial volume of advertising business. When is a new station going to be able to take that advertising away from it if it is not a viable station?

Senator Austin: You are addressing yourself to the point into which I was inquiring. It seems to me to be a chicken-and-egg situation. If you want the new Vancouver station to be successful, at the same time you must cut the umbilical cord between the advertisers and KVOS.

Hon. Mrs. Sauvé: You must realize that this station will be the direct competitor of KVOS. They carry almost the same programs, so they have the same menu to offer and need the advertising for it. They are viable for the advertising. I am saying to you right now that even though it seems somewhat arbitrary in the fact that the section will come into force when it is proclaimed, I have said publicly that we have to be practical and consider contract re-runs and the time at which the sales of broadcast time on these stations are made. I have publicly committed myself to look into this and decide on the proclamation date to suit all these circumstances. Apart from that, I can proceed also by exemption for the in-between time.

The Chairman: Honourable senators, we must not forget the witnesses we asked to stand down. I certainly want to hear them before 12.30. We have been taking a fair amount of time on this.

Senator Austin: Madame Minister, I have one last question with respect to this point. That is, whether you are considering as a third possible condition precedent to the exercise of the proclamation some attempt to work out an executive agreement with the United States, or some other arrangement which might gain for Canada the benefits of

the KVOS system in the Vancouver market without having to bring about the result of their loss of any participation in that market.

Hon. Mrs. Sauvé: What are those "benefits for Canada for the KVOS system"?

Senator Austin: You have seen their brief and the kind of submissions they have made to the House of Commons and to the Senate. Your answer is, I take it, at the moment that a duplicate service should be developed in Canada, controlled by Canadians?

Hon. Mrs. Sauvé: I do not understand what you want me to protect from KVOS. What are the Canadian interests of the KVOS activities in Canada except the benefit of the advertising, which I just told you the public in the Vancouver area will be getting because there is a new station and there will be more time available?

Senator Austin: Will the same service be available in the Vancouver market, in your opinion, as KVOS is currently providing?

Hon. Mrs. Sauvé: I would hope so. I do not believe this will happen, but should the broadcasting stations not be able to cope with all of this advertising it would go to newspapers, magazines and other types of advertising, which are equally effective.

Senator Smith (Colchester): The minister made an observation, as I understood it, earlier, that the new stations in the Toronto area are already substantially increasing their listening audience and, I presume, therefore their advertising revenue. I wonder if the minister could inform us to what degree and for what reason?

Hon. Mrs. Sauvé: That they are increasing?

Senator Smith (Colchester): Yes; to what degree are they increasing and for what reason?

Mr. Stein: In the prime-time period, from seven o'clock to 11 o'clock, the Canadian stations rank CFTO first, which is the CTV station.

Senator Smith (Colchester): Perhaps to shorten it, Mr. Chairman, this could be submitted in letter form and incorporated as an answer in these proceedings.

The Chairman: Yes; we will do that.

Senator Lang: My question is almost supplementary to that of Senator Smith. I just want to ask the minister if I am correct in interpreting her previous remarks—namely, the fact that the \$20 million revenue figure going to the United States is now decreasing in the Toronto area.

Hon. Mrs. Sauvé: That would be logical, of course, if the other stations are taking on more of the business.

Senator Lang: Of course, the market is also growing, but relatively it is becoming a smaller factor, is it?

Hon. Mrs. Sauvé: Yes, but this business has to grow, just as any other business, and it might be \$25 million in five years and constantly increase.

Senator Cook: Inflation.

Senator Lang: In other words, we do not know what the relevant portion is of the total market and the revenue in the United States?

Hon. Mrs. Sauvé: Yes, it is 10 per cent. We estimate that that \$20 million represents 10 per cent of the revenue.

Senator Lang: Is that 10 per cent increasing or decreasing now?

Hon. Mrs. Sauvé: It is staying the same, constant. Next year it might be 10 per cent of \$25 million.

The Chairman: Next year it might be 8 per cent.

Hon. Mrs. Sauvé: It could be.

Senator Macnaughton: That is deflation.

The Chairman: Senator Davey you have one question?

Senator Davey: I have several. I appreciate your patience and I will be as quick as I can. I am sorry, but I did not hear the answer given by Mr. Stein on the question of the Windsor Raceway. I did not understand the answer he gave to Senator Laird.

Senator Laird: I can explain it to you.

Senator Davey: I would welcome your explanation, but I would just as soon have the witness's.

Mr. Stein: I just read the clause.

Senator Davey: Just tell me what it is.

Mr. Stein: The answer is that if a Canadian Corporation is advertising on a United States station for the purpose of selling its products to Americans, then it would be exempt.

Senator Davey: Does that apply to a TV dealer in Toronto, or to a car dealer in Toronto?

Mr. Stein: If the car dealer can show that he can sell his product to a person in Buffalo he would qualify.

Mr. Yalden: It would be unlikely for a car dealer, because a car costs more.

Senator Davey: I was referring to Windsor Raceway, for example. In talking about retaliation and so on, it is not true that when Canadian networks buy American program they are not allowed to schedule them in Windsor?

Mr. Yalden: That is true.

Senator Davey: That is a fact of life, so there is retaliation even before we were dealing with this particular legislation.

Mr. Yalden: Yes.

Senator Davey: I think it is very important to have that on the record. I would also like to deal briefly with the question of the date of implementation. I very much agree with the chairman of this committee that the date should have been included in the legislation, and I would think the date should be almost immediately. You made the point that we have more audiences for Canadian television stations now than ever before in history. We also have more availability of Canadian television stations than is usual. I have the reserve concern to most members of this committee about the date of implementation. I am afraid that it will be postponed too far in advance. When, Madame Minister, you talk about lead time, are you also mindful of the lead time that the advertisers require? In other words, often six months to a year is necessary. Will you have that reverse consideration in mind when determining the date of implementation?

Hon. Mrs. Sauvé: I think the objective is that the bill should be effective as soon as it possibly can be.

Senator Davey: I would appreciate it now.

Hon. Mrs. Sauvé: The only reservation we have made is that we cannot, of course, have a piece of legislation that will, in effect, have a sort of retroactive effect. If some contracts are running they will have to go to the end of that time. I have had representations from several people on this bill, mainly from the broadcasters who would like—and I agree with them, because it is the object of the bill—to take advantage of this piece of legislation as quickly as they possibly can. I agree with that.

Senator Davey: But television advertising is being purchased right now for a year from now.

Hon. Mrs. Sauvé: I agree, that is so.

Senator Davey: I think you should have that consideration very much in the front of your mind, because the lead time works both ways. I have some other questions, Mr. Chairman, but due to pressure of time I will leave them.

The Chairman: Thank you.

Thank you very much, Madam Minister. It is the first time we have had you before us in your position. You do get a lot of questions here; that is a habit of ours.

We shall now resort to the *MD of Canada* presentation.

Senator Macnaughton: Where is your head office in Canada, M. Gibson?

Dr. Gibson: The head office is in Montreal.

Senator Macnaughton: I have your magazine before me, and I think for the sake of the record you should tell us the names of your editorial board and your officers, to show Canadian content, if you will, and show the English and French contribution.

Dr. Gibson: We shall do that.

Senator Macnaughton: Would you read the names now?

Senator Laird: Do we have to, or can we just put them in.

Senator Sullivan: I think all the names are referred to in the speech I made in the Senate.

Senator McIlraith: We are going to put them in the record today.

Dr. Gibson: The editorial board is: Dr. Robert Cleghorn of Montreal; Dr. Paul David; Dr. Arthur R. Elvidge; Dr. Jacques Genest; Dr. Jean-Baptiste Jobin; Dr. A. D. Kelly; the late Dr. Jacques Lussier, Dean of the Faculty of Medicine at the University of Ottawa, was on our board; Dr. Earle P. Scarlett, and Professor Hans Selye of the University of Montreal.

Senator Macnaughton: You have not given their occupations and positions though.

Dr. Bibson: Do you want that in detail?

Senator Macnaughton: It is indicative.

Dr. Gibson: Dr. Cleghorn is Professor Emeritus and head of the Department of Psychiatry at the Allen Memorial

Institute, McGill University. Dr. Paul David is Director of the Montreal Heart Institute. Dr. Arthur Elvidge is Associate Professor of Neurosurgery at the Montreal Neurological Institute. Dr. Jacques Genest is Professor and Director of the Clinical Research Institute of Montreal. Dr. Jobin is Director of Clinical Teaching at Laval University. Dr. Arthur Kelly is the former Executive Director of the Canadian Medical Association. Dr. Lussier I have referred to. Dr. Earle Scarlett is the former Chancellor, University of Alberta. Professor Hans Selye is Director of the Institute of Experimental Medicine and Surgery at the University of Montreal.

Senator Walker: Like the Hall of fame!

Senator Davey: How often does that illustrious group meet annually?

Miss Sabelle: Because they have so many commitments, their contact is mainly through the mail. I think Dr. Gibson has probably a greater opportunity to see them than I do, but we do call on them and they do respond. However, it is impossible to get them together as a group because of their schedules.

The Chairman: Any other questions?

Senator Davey: I have some, if no one else has.

Senator Walker: Aren't you in favour of this being deleted from the bill?

Senator Davey: I don't know yet; I have not made up my mind. I don't have a closed mind on these things.

Senator Walker: You certainly have.

Senator Davey: I have several questions, which any one of the three witnesses may answer. I appreciate their staying. I think Mr. MacKimm said that over the last two years you have not made any profit in Canada. Is that correct?

Mr. MacKimm: That is correct.

Senator Davey: What was the profit situation in the United States in those three years? Did you fail to make a profit there?

Mr. MacKimm: We made a small profit in the United States.

Senator Davey: Why did you make a small profit in the United States and not any profit in Canada in those years, in your opinion?

Mr. MacKimm: That is difficult to answer, because I was not with *MD* in the preceding years. Markets vary and magazines within those markets vary in terms of their popularity, their sales success and their acceptance. It is a continually changing situation.

Miss Sabelle: I can answer part of that. We had been using for some time what is called a sales representative in Toronto. When he first worked with us we were the only magazine he was representing. As he became more successful he took on many more clients and he devoted less and less time to *MD of Canada*. The year before last he was not devoting nearly as much time to selling so we had to rectify that situation by hiring a young man, a native of Toronto who had been working in Montreal. He joined our staff about a year and a half ago on full time. I believe that is helping to rectify the situation.

The other reason we went down in ads is that many pharmaceutical producers were waiting to be approved by the bureau of the government here that handles that. Sometimes this approval does not come through as quickly as companies would like it to.

Senator Davey: So you expect, then, that the profitability is about to increase again?

Miss Sabelle: We hope so, yes.

The Chairman: Hope springs eternal!

Senator Davey: Mr. Chairman, I am not a member of the committee and I have to look to you for guidance on this question. We are operating in something of a vacuum unless we have some information about the degree of profitability of the magazine and its gross revenue. Is that information which I can legitimately ask for? If it is not, I will not. We do not know the size of the publication we are dealing with, and I would like to know the scope of the enterprise now. If that is not a fair question, I will accept that ruling.

Senator Walker: Mr. Chairman, my friend is making these copious inquiries not for the benefit of this committee.

The Chairman: What is the question?

Senator Davey: What is the gross revenue of the magazine?

The Chairman: I would be inclined to say yes, we should get the answer to that question, because in the Senate statements were made quoting revenue from advertising, and what was quoted was gross revenue. But the argument which was made was based on the money taken out of Canada. We know that gross revenue and net revenue are not the same. It would be a miraculous situation if they were. Yet here, on the statements that were furnished by the Institute of Canadian Advertisers, the heading was "gross revenue from advertising." Yet those figures were used both by the minister, Mr. Faulkner, in his speech in the House of Commons, and by the government leader in the Senate.

Senator Davey: They were not used by me in the Senate.

The Chairman: I have not read your speech carefully to know whether you did go off on the same tack. Maybe you did. If you did, I will tell you about it.

Senator Davey: Please do.

The Chairman: Do you have the figure of gross revenue with you?

Mr. MacKimm: Yes. The gross revenues of the magazine have approximated \$500,000 a year, and a profit was not made in the last two years. But over the last six years the profit has approximated \$25,000 a year.

Senator Walker: That is net after taxes?

Mr. MacKimm: Yes, sir.

Senator Cook: That was the average for the previous six years?

Mr. MacKimm: The previous six years prior to the loss in the last two years, yes.

Senator Davey: Thank you very much. If I may return just for a moment to Dr. Gibson, did I understand you to say that 80 per cent of the material in *MD of Canada* is researched and written outside of Canada?

Dr. Gibson: That is correct.

Senator Davey: I understand the point Miss Sabelle made about the medical content of practically all of the articles, but what percentage of the articles is strictly medical in *MD of Canada*?

Dr. Gibson: They are not clinical-medical-how-to-do-it articles. They are the discovery of penicillin, for instance, and not how to use penicillin, if that answers the question.

Senator Davey: Are there both kinds of articles in the magazine?

Dr. Gibson: No, there are not.

Senator Davey: What percentage, then, of the articles published in the magazine are purely medical, of the kind you have described, as opposed to articles on chairs and on Persia and so on?

Dr. Gibson: There is no fixed percentage. It depends very much on an issue. It depends on whether we are doing a country or an era. For instance, we may be talking about Christopher Wren, the architect, but we do not forget Christopher Wren, the medical student, the father of blood transfusion. So I cannot give you a fixed percentage.

Senator Davey: Then you said that in January, February and March of this year you had started publishing articles in Canada, first in *MD of Canada* before they go to the United States.

Miss Sabelle: Yes, we have.

Senator Davey: Is that true of all of the articles in *MD of Canada* or just a percentage of them?

Miss Sabelle: For the January, February and March issues, as I said, 80 per cent of the content was published here first.

Senator Davey: I see. How does that affect the profitability?

Miss Sabelle: It was more expensive, of course. As we catch up on our schedule we will eventually get it ironed out all right.

Senator Davey: Would it also affect profitability in the United States, making those publications more profitable there?

Miss Sabelle: Not necessarily, no.

Senator Davey: Why not? If the work is done, you simply have to take it from Canada and give it to the United States.

Miss Sabelle: It is not the same work. We would use different illustrations here to illustrate an article, for example, if we could. If there were things in Canada that we wanted to stress we might not use those illustrations in another country. We might. So it would just depend. But I would say that it would not save any money. It has been expensive for us, because we have had really to pay a great deal of overtime to get work done on schedule. In the point of time when we were trying to revise our schedules, we had to pay more to get the pictures reproduced and so on.

When you need things in a hurry, which we did in instituting this schedule, everything is more costly. As I say, eventually it will iron out and we would hope to have a smooth schedule. But the transition is more expensive.

Senator Davey: Mr. Chairman, I appreciate your patience. I have one last question, and I must apologize to the witnesses if I have seemed overly aggressive.

How can you be so certain that if *MD of Canada*, as you publish it, disappeared from the Canadian scene, how can you be so absolutely certain that some enterprising Canadian publisher...

The Chairman: Well, she expressed the opinion.

Senator Davey: Okay. It is an opinion; that's fine.

The Chairman: Isn't that right?

Miss Sabelle: That is my opinion.

Senator Cook: That is an informed opinion.

Senator Davey: I agree that it is an informed opinion, but...

Mr. MacKimm: Senator Davey, I would say that if somebody in Canada had wanted to do this, he probably

would have tried it already. It has been tried in other countries and it has not proven to be a match for what the original article was.

Senator Davey: But it would be easier to do if you were not on the scene.

Mr. MacKimm: Not if you recall what Miss Sabelle said. There is a very involved process connected with building this kind of a publication. We feel that an enterprising Canadian publisher would probably find other areas that would be more profitable more quickly, and this would make much more sense from a business standpoint than to go into an area like this where even if you succeed as best you can, your opportunities for making a profit are very limited.

The Chairman: Any further questions?

Thank you very much for your presentation. We gave you an unusual feature this morning, in that for a while we had a musical accompaniment which I, for one, could well have got along without. We will adjourn now until next Wednesday morning at 9.30 a.m., when we will hear from MacLean-Hunter.

The committee adjourned.

Published under authority of the Senate by the Queen's Printer for Canada

Available from Printing and Publishing, Supply and Services Canada, Ottawa, Canada K1A 0S9



FIRST SESSION—THIRTIETH PARLIAMENT
1974-76

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
**BANKING, TRADE AND
COMMERCE**

The Honourable SALTER A. HAYDEN, *Chairman*

Issue No. 85

WEDNESDAY, MAY 12, 1976
THURSDAY, MAY 13, 1976

Second Proceedings on Bill C-58 intituled:
“An Act to amend the Income Tax Act”

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Austin	Lafond
Barrow	Laird
Beaubien	Lang
Buckwold	Macnaughton
Connolly	Manning
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
*Flynn	Smith
Haig	(Colchester)
Hayden	Sullivan
Hays	Walker—(20)

**Ex officio* members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, April 6, 1976.

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Davey, seconded by the Honourable Senator Lang, for the second reading of the Bill C-58, intituled: "An Act to amend the Income Tax Act".

After debate, and—

The question being put on the motion,

The Senate divided and the names being called they were taken down as follows:—

YEAS

The Honourable Senators

Argue	Lafond
Austin	Langlois
Benidickson	Lefrançois
Bourget	Lucier
Buckwold	Macnaughton
Cameron	McDonald
Carter	McElman
Cottreau	McGrand
Croll	Michaud
Davey	Molgat
Denis	Neiman
Duggan	Norrie
Eudes	Petten
Forsey	Riel
Fournier (<i>de Lanaudière</i>)	Riley
Fournier (<i>Restigouche-Gloucester</i>)	Robichaud
Giguère	Rowe
Godfrey	Smith (<i>Queens-Shelburne</i>)
Goldenberg	Sparrow
Graham	van Roggen—40.

NAYS

The Honourable Senators

Choquette	Macdonald
Cook	McIlraith
Desruisseaux	McNamara
Flynn	Phillips—9.
Grosart	

So it was resolved in the affirmative.

The Bill was then read the second time, on division.

The Honourable Senator Davey moved, seconded by the Honourable Senator Sparrow, that the Bill be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, May 12, 1976
(111)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade & Commerce met this day at 9:30 a.m.

Subject: Bill C-58—"An Act to amend the Income Tax Act".

Present: The Honourable Senators Hayden (*Chairman*), Austin, Barrow, Beaubien, Cook, Hays, Lafond, Laird, Macnaughton, Molson, Smith, (*Colchester*) and Walker. (12)

Present, not of the Committee: The Honourable Senators Davey and McElman. (2)

WITNESSES:

Maclean-Hunter Limited:

Mr. Donald G. Campbell, President and Chief Executive Officer; and

Mr. Lloyd M. Hodgkinson, Vice-President, Magazine Division.

Following the opening statement the witnesses were examined by the Committee in its continuing study of the said Bill.

Upon motion of the Honourable Senator Walker, it was resolved that copies of the Gallup Report poll of January 25, 1975 and the Maclean's promotional issue of October 6, 1975, be printed as Appendices "A" and "B" to these proceedings.

At 12:10 p.m. the Committee adjourned until 2:30 p.m. this day.

(112)

At 2:30 p.m. the Committee resumed its consideration of the above Bill.

Present: The Honourable Senators Hayden (*Chairman*), Austin, Beaubien, Buckwold, Cook, Hays, Lafond, Laird, Lang, Macnaughton, McIlraith, Molson, Smith, (*Colchester*) and Walker. (14)

Present, not of the Committee: The Honourable Senators Forsey and McElman. (2)

WITNESSES:

Graphic Arts Industries Association:

Mr. James P. Stanley, Director and President, Rolands-Federated Graphics, Montreal.

Canadian Periodical Publishers' Association:

Mr. Denis Smith, President; and

Miss Sheryl Taylor-Munro, Executive Co-ordinator.

Following the opening statement the witnesses were examined by the Committee.

At 3:45 p.m. the Committee adjourned until 9:30 a.m., May 13, 1976.

Thursday, May 13, 1976
(113)

At 9:30 a.m. the Committee resumed its consideration of Bill C-58.

Present: The Honourable Senators Hayden (*Chairman*), Austin, Barrow, Beaubien, Cook, Hays, Laird, Lang, Macnaughton, McIlraith, Molson, Smith, (*Colchester*) and Walker. (13)

Present, not of the Committee: The Honourable Senators Bell, Bourget, Davey and McElman. (4)

WITNESSES:

Time Canada:

Mr. Stephen S. Larue, President;

Mr. Douglas Andison, Counsel;

Mr. Hugh Findlay, Advertising Director; and

Mr. John Scott, Ottawa Correspondent.

Following the opening statement the witnesses were examined by the Committee in its continuing study of the said Bill.

At 12:30 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, May 12, 1976.

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-58, to amend the Income Tax Act, met this day at 9.30 a.m. to give consideration to the bill.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, appearing before the committee today will be Maclean-Hunter Limited, Canadian Periodical Publishers' Association, and Graphic Arts Industries Association. The two last-mentioned groups will make their submissions this afternoon, and I understand neither will be lengthy. Both have filed briefs in advance, which I am sure all members of the committee have now read.

The submission this morning will be from Maclean-Hunter Limited, and representing Maclean-Hunter we have Mr. Donald G. Campbell, President and Chief Executive Officer, on my immediate right, and Mr. Lloyd M. Hodgkinson, Vice-President, Magazine Division. I believe Mr. Campbell has an opening statement.

Mr. Donald G. Campbell, President and Chief Executive Officer, Maclean-Hunter Limited: Thank you, Mr. Chairman. Let me, first of all, thank you, Mr. Chairman, and members of the committee for this opportunity of appearing before you. To provide you with some background on both Mr. Hodgkinson and myself, I have been with Maclean-Hunter since 1957, first in administration and then in broadcasting, and now as president of the company. Mr. Hodgkinson started with the company back in 1942 and has come up through quite a different route than mine, always having been connected with the publishing operations. He was, first of all, connected with the publication operation of business publications and then magazines, having been publisher of several of our larger magazines, and is today Vice-President, Magazine Division, and publisher of *Maclean's* magazine.

As members of the committee are aware, we submitted a relatively short brief. What I had originally proposed was to summarize it, highlight it, as I thought it could best be done. However, in going through it, I have come to the conclusion that it is a rather condensed document as it is and most of what is contained in it has merit. With your permission, while I would not read it all into the record, I would like to emphasize probably 85 per cent of it, because I think the points made in it are quite essential.

Looking at the paragraph headings, I would like to discuss, first of all, and having defined what that need is, we then attempt to define, as we see it, what the problem is in Canada. Having defined the problem, we come to the solution, and after the solution we discuss, in our opinion, as publishers, what we believe the results of that solution might be.

Magazines are special. Magazines constitute the only national press we possess in Canada. Magazines add a journalistic dimension which no other medium can provide—depth and wholeness and texture, plus the visual impact of graphic design. Magazines, because of their freedom from daily deadlines, can aspire to a level of excellence that is seldom attainable in other media. Magazines, in a different way from any other medium, can help foster in Canadians a sense of themselves. In terms of cultural survival, magazines could potentially be as important as railroads, airlines, national broadcasting networks, and national hockey leagues.

But Canadian magazines are in trouble. The industry may not be dying, but it is certainly not growing. There are very few Canadian-owned consumer magazines that can claim, with any degree of certainty, that their survival is assured. And if a number of long-established magazine are staring extinction in the face, it is becoming increasingly unlikely that new ones can be launched to replace them.

So began the section on "The Troubled Magazines" in Volume I of the 1970 Report of the Special Senate Committee on Mass Media. And it is apparent other Canadian governments have felt precisely the same way. Similar conclusions were also reached by the 1951 Report of the Royal Commission on National Development in the Arts, Letters and Sciences, and the 1961 Report of the Royal Commission on Publications.

Why then does Canada still have a weak periodical press? The answer is the massive influence foreign magazines have in this country. In essence, the problem is two-fold: magazine overflow and dumping of editorial and other publishing services. There is a massive overflow into this country of foreign publications. In fact, 95 per cent of all the magazine titles sold on our newsstands are foreign. Specifically, of the 1,400 magazine titles handled by wholesalers, 70 are Canadian and 1,330 are foreign. The distribution of United States magazines alone in Canada is in excess of 215 million copies annually—ten copies for every living person in this country.

It is Maclean-Hunter's position that there should be no imposed restrictions on the availability of foreign magazines to Canadians. In spite of the imbalance in favour of foreign publications, we do not advocate inhibiting the free flow of information into this country. We do take issue with the fact that foreign-owned magazines have been allowed to "dump" foreign editorial material into Canada and to produce so-called "Canadian editions." They are in fact 80 per cent to 90 per cent foreign editorial content, and not Canadian at all.

Editorial material is a product which takes considerable amounts of money to produce. And when it is produced—as the original of the so-called Canadian editions is—for a

foreign audience of 220 million people, it can be, and is, sold to the Canadian subsidiary for a fraction of its real cost of production. The competitive disadvantage of the truly Canadian periodical is obvious. We know of no other industry where dumping on this scale is permitted.

Editorial is only one of many costs. Foreign publications operating in Canada have many other advantages as well. Their parent operations reduce their costs dramatically in other areas, including circulation fulfilment, and research and development.

Ultimately, the result is to completely undermine the economic base of any truly Canada magazine publishing industry. Put another way, if two businesses manufactured cars, one of which received engines free and the other had to build and install engines, the competitive advantage would soon put the other out of business. Substitute "editorial product" for "engines" and you have some idea of the problem Canadian publishers face.

To give you another idea of how dominant American media are in Canada, for every dollar United States advertisers spend on United States media, Canadian advertisers spend 55 cents on Canadian media. Allow me to quote the conclusion of the Royal Commission on Publications:

A nation's domestic advertising expenditures should be devoted to the support of its own media of communications.

Bill C-58 is a solution to this problem. But Bill C-58 is not, of course, the government's first legislative recognition of the problem. In 1965, section 19 of the Income Tax Act was passed by the government. In general terms, this legislation has been beneficial to domestic media, even though it exempted prior existing "Canadian editions," because it prevented scores of other foreign publications from starting "Canadian editions" to compete for advertising revenues. Section 19 has been effective because of the interpretation given by Revenue Canada. Their interpretation has been that to qualify as a "Canadian issue," a magazine must not merely republish editorial matter from foreign magazines to support an advertising structure. Any weakening of the interpretation of section 19 will make it virtually impossible for new domestic magazines to start, and for present magazines to grow and develop. It will open the door to more foreign magazines competing for Canadian advertising revenues by merely republishing foreign editorial material to support a Canadian advertising structure.

Opponents of Bill C-58 have been requesting a percentage interpretation of the famous "substantially the same as" clause. To weaken the bill by an interpretation of less than 80 per cent difference will have serious consequences for truly Canadian magazines. Anything weaker than this will permit an influx of foreign periodicals publishing Canadian editions with 40 per cent to 50 per cent "dumped" copy, and will force many Canadian periodicals on the other side to become licensed to use foreign magazine editorials simply to be able to compete. Canadian writers and artists could be put out of work, and Canadian publications would be put out of business.

Bill C-58 as presented will be legislation which achieves precisely what it attempts to achieve—the preservation and growth of Canada's periodical press. The adoption of this legislation will encourage new Canadian magazines and provide a financial base so that they can serve the growing reading demands of Canadians.

This bill has been designed to foster the growth of new, fresh Canadian opinion. Opponents of the bill are choosing to cloud the issue by claiming the bill is censorship. Maclean-Hunter, as Canada's best known national periodical publisher, strongly believes in a free press. And if this bill smacked in any way of censorship, we would oppose it violently. But this bill is not censorship; it concerns the location of editorial control and restricts editorial dumping. It does not legislate content: it legislates what is and what is not deductible for tax purposes. Simply put, editorial content the same as that appearing in foreign publications will not qualify.

Maclean-Hunter has a strong tradition in this country of publishing magazines. And because we are a communications company it is a tradition that has gone beyond profit. You may be surprised to learn that Maclean-Hunter did not make a profit from consumer magazine publishing in 1974 or in 1975. And it may also surprise you to learn that our profits through the years from publishing consumer magazines have been at best marginal. But our company has been built on a foundation of helping to build Canada, and we want to maintain that. We have published *Macleans* since 1905, *Chatelaine* since 1928, *Châtelaine* since 1960, *Le Maclean* since 1961 and *Miss Chatelaine* since 1964. They are read in every city and village in English and French-speaking Canada.

If I may, I would just like to depart from my text for one moment. I used the word "village," and I want to emphasize that, in spite of what our Maclean's ads may say, it is corporate policy to have our consumer magazines readily available and willingly serviced to any person resident in Canada, no matter where they may live.

We would like to see more truly Canadian consumer magazines. Bill C-58 will give new and other existing publishers a chance to grow, and in turn to strengthen the medium, which will cause even more advertisers to turn to magazines.

As the 1970 Special Senate Committee on Mass Media said so emphatically and so well, Canada needs a strong national periodical press. Bill C-58 will provide it.

Senator Laird: Mr. Campbell, perhaps first we could settle a rather fundamental point. In the course of debate in the Senate, and otherwise, it has been inferred or suggested that this bill constituted a sort of dogfight between *Macleans* and *Time* magazine. Before coming to the question, let me assure you that in the Senate I said I liked *Macleans* magazine and that I read it regularly, but I questioned whether there was anything in the nature of a battle between *Time* and *Macleans*.

Supposing this bill passes, what would you contemplate? Would you contemplate changing the format of *Macleans* to make it into a type of magazine resembling *Time* magazine; or, in the alternative, would you contemplate setting up an entirely different publication?

Mr. Campbell: As far back as 1971, when Mr. Hodgkinson took over as vice-president of that division, and Peter Newman joined us as editor of the magazine, we published our plans and what we were thinking of for the future, because we had gone through a career that we do not necessarily like to talk about too much. We were not pleased and none of the executive of the company were pleased with our product at that time. We made a dramatic change right from the top through the entire organization, and Mr. Hodgkinson took over. We stated at that time that

we wanted to bring credibility back to the publication, and that I think we have done—and I hope you agree with that statement. In addition, we mentioned that we wanted to improve the frequency of the publication and, as early as 1971, we indicated that we would be going hopefully, when economics permit, to a weekly frequency. We still have that goal.

I would be misleading you, however, if I left you with the impression that that could happen next week or next month. Our present timing is that it is possible and, God willing and the Post Office willing—we are certainly dependent on them as well—we will be shooting for the fall of 1977 timing for going to a weekly frequency.

The format will probably be much as you see it today—that is, a news magazine for Canadians basically written by Canadians.

Senator Laird: At the present time you have some excellent feature articles. You do not necessarily give us at this stage news right up to date like *Time* magazine has been furnishing.

Mr. Campbell: We would hope our news is very current, but it is obviously not as desirable with a two-week publishing frequency as it would be with a weekly. That is our objective, to get a weekly frequency.

Would you care to add anything, Mr. Hodgkinson?

Mr. Lloyd M. Hodgkinson, Vice-President, Magazine Division, Maclean-Hunter Limited: On the currentness of news, the way we work *Maclean's* today is we have a late 16-page form which handles Canadian news. That form goes to press at 10 o'clock Sunday night. It closes, for editorial copy, on Saturday and Sunday. 750,000 copies of that magazine are printed and bound, 450,000 copies are in distribution by 4 o'clock Monday, and the balance by noon on Tuesday. They are distributed into the mail stream, we fly copies west and east, and they are distributed across the country, to news stands starting Wednesday and to subscribers starting Wednesday. The schedule we have set up, and have been working with the Post Office on, is to have complete distribution by Friday of that week. That issue is dated Monday. That is exactly the same time schedule as *Time* magazine.

Senator Laird: Therefore, you feel you have the machinery to do what *Time* did with its Canadian content?

Mr. Hodgkinson: On a twice-monthly basis, we can.

Senator Laird: If you go to a weekly basis, as Mr. Campbell suggests, then what?

Mr. Hodgkinson: There is no secret to it, senator, it just takes a lot of hard work and money.

Senator Laird: And an increased staff too?

Mr. Hodgkinson: An increased staff, yes. We have increased the staff since we have gone from a monthly frequency to a twice-monthly frequency. We have, between the permanent staff and the correspondents on a free-lance basis, anywhere from 40 to 150.

Senator Laird: Having gone through a similar process with broadcasting, I am curious to know how in heaven's name you figure out accurately Canadian content.

Mr. Hodgkinson: Do you wish me to answer that?

Senator Laird: Either one of you.

Mr. Campbell: Senator, what we produce, in my opinion, is 100 per cent Canadian content; in other words, it is selected by Canadians in Canada, although some of our staff are down in Washington as well. It is written by, not necessarily Canadians, but the intent, what we want to bring out in the story, is dictated by our Canadian editorial people.

Mr. Hodgkinson: You should be receiving this issue of the magazine today, if the distribution services are correct. I felt it might be helpful if we broke this issue down to show you just how the material was obtained for that particular issue.

121 journalists contributed to that issue. Forty of those are in our head office in Toronto, six in the bureaus across Canada, and two in the U.S. bureau. Then there are 11 Canadian correspondents and 34 foreign correspondents, and 29 contributing Canadian editors.

Now, on the content itself, there are 49 pages of editorial content in that issue. That is the standard we run. 33½ pages dealt with things that were happening in Canada, either news items or features. An example would be the story on the swine flu, which is an international story, and I have given that as half Canadian and half international in this balance. 15½ pages or 32 per cent, was dealing with foreign subjects. 68 per cent is then dealing with Canadian subjects, but of the writers who wrote that material, 95 per cent of those journalists were Canadian and 5 per cent were correspondents in other parts of the country who were not affiliated on a staff basis with our company but with whom we buy on a freelance basis. They are mainly the *Manchester Guardian* and the *London Observer*. That may help you get a picture as to how we operate.

Senator Laird: It is a very interesting analysis and I will leave it up to my colleagues to see if they can find any flaws in it.

The Chairman: Mr. Campbell, could you help me on this: In 1965, in the legislation that came in at that time, which provided for this non-deductibility of advertising costs in certain circumstances, there was a grandfather clause which exempted from the application of that non-deductibility rule magazines that throughout a period of twelve months, ending April 26, 1965, had issues that were edited, printed and published in Canada. If they qualified in that way, then thereafter they were not deemed to be non-Canadian publications, is that right?

Mr. Campbell: Yes, sir.

The Chairman: We can assume, therefore, that from that date no new foreign magazines, which might be classified as non-Canadian issues, came into Canada.

Mr. Campbell: There was one that slipped through on a technicality, senator, but that is all.

The Chairman: All right. The ones that were there and enjoyed the grandfather clause were what magazines, in addition to *Time* and *Reader's Digest*?

Mr. Campbell: MD is one I am familiar with.

The Chairman: You are missing my point.

Mr. Campbell: I am sorry, senator.

The Chairman: I am talking about section 19, subsection 2. MD comes under subsection 4, under the fine arts.

Mr. Campbell: To my knowledge, there were no others.

The Chairman: Is it a fair conclusion to draw that the change that is being made in this bill is aimed directly at *Time* and *Reader's Digest*?

Mr. Campbell: I would not say that, sir. I look upon the bill as much broader than that, of course. It is a communication bill. Broadcasting has been added, and subsection 4 has been eliminated. There are several newspapers also involved, of course, and one or two business publications. Therefore, it is considerably broader than *Time* and *Reader's Digest*. *Time* and *Reader's Digest* certainly, from the publishing point of view, would be the lion's share of the advertising dollar, if we are using that as a measurement.

The Chairman: When you are talking about overflow, as you do in your brief, about magazine overflow and dumping of editorial and other services, I take it that has reference to *Time* and *Reader's Digest*.

Mr. Campbell: The overflow situation, Senator Hayden, really is not only the news stand situation. The 215 million copies of magazines which I refer to is where the overflow comes from. The dumping is primarily in the field of *Reader's Digest* and *Time*.

The Chairman: Therefore, the 1965 legislation cleared the field of competition for non-Canadian issues other than *Time* and *Reader's Digest*?

Mr. Campbell: We found it to be a most effective piece of legislation, with the exception of the grandfather clause, but, of course, the legislation was designed to protect that grandfather position. So, to answer your question specifically: Yes, the legislation did work; it worked exceedingly well.

The Chairman: When you talk about the numbers of foreign magazines on the news stands in Canada, you are referring to ones that make no attempt to qualify under the 1965 legislation?

Mr. Campbell: They have not made any attempt after 1965; no, sir, they have not. But there are vast numbers of them, as I indicated, 1,330 out of 1,400, on our news stands and they do make up a total circulation of issues of 215 million copies. But we are not proposing for one moment that that flow of information should be stopped.

The Chairman: No, and as a matter of fact this bill does not propose to stop it.

Mr. Campbell: Quite so.

The Chairman: So that brings us back to *Time* and *Reader's Digest*.

Mr. Campbell: Correct.

The Chairman: Now that *Reader's Digest* has apparently been accepted as being a Canadian issue, then it really brings us to the situation that this bill deals directly and only with *Time* magazine.

Mr. Campbell: Predominantly—plus broadcasting.

The Chairman: Well, there isn't any other magazine that would be affected by this bill.

Mr. Campbell: I wear several hats within our corporation, as you appreciate, senator, and I would not want to leave you with the impression that we were only interested

in the magazine side of the operation. For example, with respect to *MD*, there are at our count 30 Canadian medical publications in this country. Possibly some of the questions asked would lead me to believe, "Well, what difference does it make? *MD* is quite different," and so on. But there is probably about half a million dollars of Canadian advertising revenue going into the Canadian *MD*. So I agree with the direction you are taking, senator, but some of these other things are of importance to us as well because, while the consumer magazines are the visible press of this country, the business magazines, in my opinion, and I am sure my confrere would agree with me even though he is a director of the other division, that the business publications serve a very useful role in this country.

The Chairman: You seem to come back to *MD* magazine. We have them here last week.

Mr. Campbell: Yes, sir.

The Chairman: They acknowledged that their gross advertising revenue was about half a million dollars per year. They also admitted that over the period of the last five years, if I remember correctly their profits arising out of the operations were of the order of \$25,000 a year. They publish approximately 30,000 copies. There is the measure of their status in this field, and they did appear from the evidence to be a speciality magazine.

Mr. Campbell: Obviously, senator, I do not wish to get into a debate with you, but I think it is important to note that when there are 30 medical publications in Canada attempting to serve that marketplace, then one more, the 31st, with a half a million is a very significant point for that particular industry. That is all.

The Chairman: If *MD* qualifies, or did qualify from 1965 on to now, it qualified by virtue of the exemption in the 1965 legislation which exempted any publication the principal function of which is the encouragement, promotion or development of the fine arts, letters, scholarship or religion. So it did not survive 1965 by virtue of the grandfather clause.

Mr. Campbell: Right.

The Chairman: You talk about losing money on your consumer magazines; well, I was looking at the *Financial Post* Corporation Service. I see that it says that the profit contributions of the consumer magazine were reduced during the year due to high increases in paper and other costs.

Mr. Campbell: Correct.

The Chairman: Do you include in other costs the competitive effect of *Time* magazine?

Mr. Campbell: Well, they are always out there, as all other media are, of course. We compete with the marketplace.

The Chairman: Yes.

Mr. Campbell: But you could not allocate anything directly to *Time* or *Reader's Digest* as a cost factor, senator.

The Chairman: No, I did not think you would attempt to.

I also see from the financial statement that Maclean-Hunter operates in many parts of the world.

Mr. Campbell: Yes, we do, sir.

The Chairman: I assume that they bring the profits, if any, home.

Mr. Campbell: Yes. There is quite a distinction, though, I think, senator, between how we may function here and in other countries, such as England, the United States, and also Germany, where we have a very minor operation—we own one-half of one publication which is in the rate and data field. It is the same in Italy and in France. Those companies are run by citizens of those countries. They receive no editorial contributions from Canada per se and it is quite a different thing than if we were able, for example, in Canada to produce editorial material and other material that we could provide them with in those countries that they could then run in those countries. That is not the case.

The Chairman: I was just wondering whether in those various countries in which you operate you had anything akin to this kind of legislation, that we are looking at, governing your operations, because there you might be in the category of being a foreign periodical.

Mr. Campbell: No, there is nothing. There are some strict ownership provisions, directors of corporations and that kind of control in those countries.

Senator Molson: What about the United States? Could you go into the United States and so anything that would be comparable to *Time* or *Reader's Digest* here?

Mr. Campbell: I believe we could, senator, for a short period of time. My belief would be that if we became very successful we would be shortly cut off. We have had two experiences with that, which perhaps you would be interested in. We owned a small paging operation in Buffalo, New York. By "paging" I am referring to the device of contacting a senator, for example, or a doctor with a beeper which is kept in the person's pocket and which makes a sound. Finally, after much discussion, the FCC gave us 21 days to cease and desist and leave the country, which I thought was rather unusual and perhaps unique.

Senator Cook: What reasons did they give for that?

Mr. Campbell: The transmitter was in Niagara Falls, Canada. They said that was their domaine and therefore we had no right to be in Buffalo. We had 21 days to get out of business, which we did.

Senator Walker: To be more specific, in coming back to your worldwide empire, has there ever been any country which has specifically refused to your advertisers the right to deduct their advertising costs with your publication from their taxes?

Mr. Campbell: I can't think of any, senator.

Senator Walker: So this venture of Mr. Faulkner's would be unique in the history of the world, so far as you are concerned?

Mr. Hodgkinson: I think there is a very specific difference, senator. In the United States the total editorial product is produced and developed by people resident in the United States and directed specifically to an industry or to a public in the United States. Therefore, we are meeting the so-called "80 per cent substantially different" clause to begin with. We even do it within our own country of Canada. We publish two French language magazines in the

consumer magazine field and they are more than 80 per cent substantially different from our English magazines which have similar names, simply because we believe that to be the right way to publish. In other words, if you are going into a country, then you should really be trying to do things within that country to help it develop.

Senator Walker: For whatever reason, no other country has reciprocated the way Canada has in refusing to allow a deduction for any advertisers. That is the specific answer to my question.

Mr. Hodgkinson: Yes.

Mr. Campbell: Senator, I believe our borderline situation is unique, in that both languages are English. Usually you run up against French/German or French/Italian, or whatever it might be, and in those countries various protective devices have been adopted to help the local publishers; but with regard to Canada and the United States, and our common mother tongue, this is quite an unusual situation in the world.

Senator Molson: Have you any idea what the situation is in Switzerland and how they deal with the German, Italian and French publications coming into Switzerland?

Mr. Campbell: I do not, Senator Molson.

Mr. Hodgkinson: I have no idea, other than what I heard the minister mention last week; but I am sure they do have some sort of regulation, as I think they do in Belgium, also; but I have not looked into that. I think our situation, in which we happen to have an entirely similar language, is a unique one.

The Chairman: Mr. Hodgkinson, in your brief you talk about magazine overflow, and dumping, as being one of the consequences that adversely affect the operation of consumer magazines in Canada. That is a paraphrase of what you say in your brief. Would you say that that statement applies to *Time* magazine, to your knowledge?

Mr. Hodgkinson: Oh yes, very definitely.

The Chairman: Because we are having *Time* magazine in here tomorrow, and we will get their evidence on the point.

Mr. Hodgkinson: Certainly it does. For instance, *Time* magazine would like all of us to believe that they are the only ones in the world who can produce a news magazine. This has been a very good public relations and publicity build-up over a period of maybe 40 years.

The Chairman: Is that not the inspiration that you provide in relation to your magazine, too?

Mr. Hodgkinson: Yes, it is; but there are a number of news magazines in the world: there is *Newsweek*, *U.S. News and World Report*, *l'Express*, some German ones, and so on, and these publications are all unique in their own right, too. In the case of *Maclean's*, in moving to a news-type magazine, we also want to be unique. We do not want to be like *Time* magazine. However, we are going to have to deal with many of the subjects that *Time* magazine will deal with. If there is a crisis in energy caused by the OPEC countries, for example, then obviously we would be dealing with that. We have to develop and generate our product from the resources available within the publishing confines of Canada. *Time* Canada gets that just because it

happens to be here. So that editorial dumping is a disadvantage to us. I do not know if I have answered your question, but that is the way I look at it.

The Chairman: What would you say was the extent of the dumping?

Mr. Hodgkinson: In their case?

The Chairman: Yes.

Mr. Hodgkinson: I would say about 60 per cent or 70 per cent of the product.

The Chairman: By "dumping", what do you mean? Do you mean using the same material in the United States as in Canada?

Mr. Hodgkinson: Yes. Using the same material. In my figure of 60 per cent to 70 per cent I mean using the same material that a publication that is trying to be a news magazine in Canada may also wish to publish on that subject. Some of their material we would not want to deal with at all.

The Chairman: What bothers me is that the usual connotation with regard to dumping is dumping at a lower price, and possibly even below cost, and we do have features in our legislation against dumping.

Mr. Campbell: To my knowledge, those have never been employed, senator, in the publishing field. We have toyed with this. We have tried to come up with other approaches and other concepts, and we have found it very difficult. We do not know how you price second-hand editorial material.

The Chairman: I can understand that. I notice that according to this financial report, between 1970 and 1975 your net income before extraordinary items more than doubled.

Mr. Hodgkinson: Yes, sir.

The Chairman: I see that in 1970 it was a little over \$2 million, and in 1974 it was a little over \$5 million.

Mr. Campbell: The reason for that, sir, was that we were able to diversify—we were able to get into cable; we were able to get into broadcasting—and that is the reason for our improvement. However, when you look upon it as a return on sales, or a return on investment, in fact we have not materially improved our position.

Senator Molson: What was the volume of sales, or revenues? What was the gross revenue figure?

Mr. Campbell: Last year it was \$156 million. That was our sales revenue.

The Chairman: Any other questions?

Senator Hays: I have a question, Mr. Chairman. How much subsidy do you receive from the Post Office for distribution of the magazine?

Mr. Campbell: I do not believe we receive a nickel by way of subsidy. In fact, I would argue that we make a significant contribution to reducing the cost of the Post Office.

Senator Hays: There is no subsidy now to magazines?

Mr. Campbell: There are first, second and third class mailings.

Senator Hays: That would be the only part of it on which there might be a subsidy? The difference between the first and second class?

Mr. Campbell: Yes. My background is that of an accountant, and I may say that when you ask the post office about their cost accounting techniques, they really cannot provide you with any information about what their costs are.

The Chairman: Would that be the same for other magazines?

Mr. Campbell: Yes.

Senator Macnaughton: Which classification are you in—first, second or third?

Mr. Campbell: We are in several classes of second, because it depends on whether a publication such as *Maclean's* is a paid publication, or a publication such as *Canadian Machinery*, which we call a controlled circulation publication. They would be in a different section of class 2.

Senator Macnaughton: Are you the same as newspapers?

Mr. Hodgkinson: The consumer magazines are essentially the same as newspapers.

Senator Smith (Colchester): I heard one of the witnesses refer to the advertising in their magazine, which seemed to indicate pretty clearly that they wanted to increase the urban coverage and decrease the rural coverage. It is very difficult to tell from the advertising exactly what they meant. Now, I heard the witness say that that really was not their policy, and it really does not sound as if it is too consistent with the policy which one sees carried out in the magazine.

Mr. Campbell: Well, senator, we have what you might describe as a fairly large shop, I suppose, for Canada. We have something in the order of 4,000 employees, of whom over 2,000 are in the area of publishing. We goof from time to time, and sometimes an individual will put forward a campaign such as that particular one was, which has not been cleared or approved. You might wonder how that could happen—I sometimes wonder how it could happen myself; but it did happen. However, I wish to assure you again that that is not corporate policy. Anybody in this country who wants any of our consumer magazines can get them, and get them readily.

Senator Smith (Colchester): I do not suppose the advertising was designed to prevent rural people from getting the magazine, so I am not sure just what your answer means. What I would like to make sure of is that there will be no effort made to decrease the availability of the magazine to the rural consumer.

Mr. Hodgkinson: There will be no effort to reduce the availability of *Maclean's* magazine, or any of our five consumer magazines, to the rural consumer.

Senator Austin: Mr. Campbell, I think the issue in terms of this bill, and publication, has come down to a question of the 80 per cent and the "substantially the same" aspect. There have been a number of discussions on other points, but really, I think the question comes down to, "Why 80 per cent?"

The Chairman: The 80 per cent, of course, is not in the bill.

Senator Austin: No; but the issue that is before us is that of the 80 per cent, and I would like your comments and/or those of Mr. Hodgkinson as to why the 80 per cent. Did you take the position at any time that it should be more or less than 80 per cent, in discussions with the department, or what has your advice been?

Mr. Campbell: First of all, senator, we have never been asked for our advice. We hoped that we might have been from time to time, but we were never asked for it. We were maintaining in this whole issue of the bill as low a profile—and I think the minister confirmed this the other day—as we possibly could. We felt we were in a position where we literally could not win when you consider the makeup of our properties, the advertisers we have, et cetera. So we maintained an exceedingly low profile on this until suddenly we learned on reasonably good authority that there was a possibility of something “substantially different” which had not been defined since 1965 and that there was tremendous pressure that this should now be defined and that it could be coming in as low as 50 per cent or 60 per cent. We quickly thought this through from our point of view, and we came to the conclusion that it would be a disaster, as far as we were concerned, if somebody were permitted to go as low as 50 per cent or 60 per cent, and that in fact we would have no alternative, in our opinion, but to go from the 100 per cent Canadian, as we now look upon ourselves, down to 50 per cent Canadian and buy the other 50 per cent. Then, in all probability, the floodgates would be open and we would be out of the consumer magazine publishing business. We then came down and said that what we would really like to ask for was 100 per cent. In talking about that, we felt that if we did ask for 100 per cent we would be looked upon as unreasonable people, and so we said, “What is there as a percentage figure that does not appear to be too unreasonable and yet can be operable?” And we suggested that 80 per cent was about right.

Senator Austin: What meetings are you referring to now?

Mr. Campbell: We visited with everybody we could. We met with the Conservative caucus. We met with everybody everywhere who would listen to us.

Senator Austin: This was after the bill was introduced?

Mr. Campbell: Yes.

Senator Austin: So, to be clear on this, you were not consulted by the government in any way with respect to 60 per cent or 80 per cent or 100 per cent?

Mr. Campbell: No, neither were we consulted about the bill. When the bill appeared, it was rather a surprise to us.

Senator Austin: Did you consider at any time that you would make a better profit if you went to somebody like *Newsweek* and said, “Sixty per cent will be just fine. We will make a deal with you; and you give us this material,” and so on?

Mr. Campbell: Senator Austin, we have been approached by *Newsweek*, and they said to us, “Why don't you set up a partnership? We will provide you with the material and you will publish it for us.” In fact, I have a letter in my file right now from a medical publication in the United States, dated, I think, September 1975, and they said, “Gentlemen, we understand you are reasonably large in Canada. We turn out a superior product in the United States. Why don't

you take all of our editorial product and you do the selling up there and we will enter into a joint venture?” We wrote back and said that that was not what we intended. They were really looking upon us as a sales agent to make a profit.

Senator Austin: Would you not have made a better profit with *Time*?

Mr. Campbell: Unquestionably.

Senator Austin: And the reason for that is?

Mr. Campbell: Well, we think that publishing in this country for Canadians is a very important element of our society, and if we start going that way there would be little enough Canadian press left. So if we start going in that direction, then that in our opinion is the end of it.

Senator Austin: With regard to your responsibility in the publication of *Maclean's*—just to focus on that magazine—you say it is to offer Canada a news magazine. Canada is in the world, and I presume you have a policy with respect to world news. Can you outline that, and can you say why you dealt with *Newsweek* as you did?

Mr. Hodgkinson: Senator Austin, we are not trying to be a news magazine like *Time*. We are trying to be a news magazine like *Maclean's*; in other words, we want to keep a unique position. We feel that in the type of magazine we publish we should have both news and features. We feel there is a great need for a forum for discussion of issues across Canada, not necessarily by a group of people assembled on an individual staff of a magazine, and features provide that. In the case of obtaining news within Canada, we think we are better than any other type of magazine stationed any place else to report what is happening in Canada. This is our domain. In the field of reporting news from outside Canada, from Europe, Asia or Africa or whatever parts of the world may be of interest, we feel we should have the right to make the selection of what type of subject we are going to deal with, and then we will assign a writer, either one of our own or we will make an arrangement with the *London Observer* correspondent, or the *Washington Post* correspondent or whatever, and we will give them the angles that we want them to include in the story. Then when it comes back, we edit the story and if it needs to be redone, we go back again. We think it is very important that we have that sort of a view of people involved with the milieu of our society who have their influence on the editorial subject coming from abroad. I can give one or two examples here. For instance, when the trouble was on in Cyprus, magazines such as *Time* and others did not give a damn that Canadian troops were there and did not report that they were there. Our approach to that story would have been entirely different. There were Canadian troops there and they were defenceless; they were being shot at, but they could not shoot back at anybody, and that was the kind of subject we were interested in. So we would report the Cyprus story in an entirely different fashion from that of *Time*. The same thing would apply to stories on energy.

Senator Austin: Did you report the Lee Bailey-Patty Hearst story differently from the American magazines?

Mr. Hodgkinson: Yes, we did, and we sent our writer down there to do that. To us, it was a circus and we reported it in that way; and I think we were quite right.

The Chairman: Senator Cook?

Senator Austin: I have a few more questions, Mr. Chairman. I want to ask the witnesses why they did not go for 100 per cent. I don't understand why you would pick 80 per cent, except, if I follow the chairman's discussion with you, that 80 per cent would be as good as 100 per cent in its effect and, therefore, 80 per cent would be more satisfactory public relations-wise from the point of view of your representations.

Mr. Campbell: Our opinion was that 100 per cent would make us look as though we were unreasonable, and with 100 per cent, then one ad or one word—and some mistakes are made sometimes—and somebody could have been thrown off technically who had no intention of being offside. That is why we backed off the 100 per cent and agreed amongst ourselves that 80 per cent would probably be an effective percentage.

Senator Austin: And this also gives you the opportunity from time to time of using a small amount of foreign material where you think it is relevant?

Mr. Campbell: That is not the intention. As Mr. Hogkinson said earlier, if you see a foreign story in there, we have decided first of all that that story should run, we have decided what the angles and approaches of that story should be, and that story has been edited in our editorial offices. It is therefore quite different from anything else that would appear anywhere else in the world.

Senator Austin: Have you a particular policy with respect to reporting affairs in the various regions of Canada? I come from British Columbia. Do you have a content rule of thumb in your own editorial line as to how many columns or stories or pages shall appear on British Columbia, or the West, or the Maritimes?

Mr. Campbell: No, senator; we do not have a percentage allocation. For example . . .

Senator Davey: Allan Fotheringham.

Senator Austin: The two of us cannot be confused.

Mr. Campbell: It would be wrong for us to set up a formula which said that this week we should have 40 per cent Canadian, 40 per cent international, 20 per cent something else, and so on. All I can tell you is that we have set up bureaux across the country. We do not have them in every major location yet, but we have bureaux in the West, in Vancouver and, of course, in Ottawa, Montreal and Washington. In addition we have all the correspondents and stringers to which we have already referred. I also know for a fact that the editor of the publication keeps on his wall coloured pins which we look at from time to time and which indicate every part of this country from which every story comes. It is amazing to see how many come from the West, the East and throughout the entire country. So it is not something for which we could establish concrete, fixed percentages; I do not believe we could turn out the best publication if we did that. However, we are very aware that we should be talking about the country.

Senator Austin: I may not have another opportunity of addressing this remark to you, but I would like to say that if *Maclean's* is going to be a national magazine you must always bear in mind the people outside the Toronto region, that its focus is too metro Toronto-oriented. I know that Senator Davey keeps that in mind and worries about it a lot.

Mr. Campbell: We worry about it also.

Senator Austin: Just so that there will be no suggestion that I have a special position, Mr. Chairman, I would like to say at the conclusion of my questions that in September 1965 an article written by me appeared in *Maclean's* magazine, for which I was paid. I have had no relationship with *Maclean's* magazine since that time.

Senator Cook: I would like to ask one or two questions on the financial side. We heard that *MD* attracted approximately \$500,000 worth of revenue.

Mr. Campbell: Yes, sir.

Senator Cook: We now how that *Reader's Digest* has, shall we say, escaped the net, so the other major contender is *Time*. Assuming, which I believe to be the case, that it will continue to be printed in Canada and is offering lower rates because of lower circulation, but will still attract a certain amount of Canadian advertising, would you hazard a guess as to how much money will be freed up for grabs on the advertising side as a result of this legislation?

Mr. Campbell: Yes, senator. Looking at the bill in total we were originally looking at a figure, including the broadcasting, of between \$35 million and \$40 million, which was significant for Canada. You have to drop that figure down now, assuming that *Reader's Digest* can comply, which I assume to be the case from everything they have said. I believe we must also drop the figure down a little, not very much, maybe \$1 million or \$2 million because of the continuation on the part of *Time* to publish. However, they have dropped the rates substantially; the circulation will, of course, be dropping. I think, also, in my opinion and I could be terribly wrong, but my guess is that there will be many companies and governments which will believe that it is perhaps not the intent of the government to advertise and therefore they may not wish to be associated with *Time* magazine; I do not know.

Senator Cook: Can we narrow it down still further, by eliminating the broadcasting and just keeping to the printing of *Time*? Would you hazard a guess as to how much money would be freed up in that case?

Mr. Campbell: The figures which we have for *Time* for 1975 are in excess of \$8 million.

Mr. Hodgkinson: That is net.

Mr. Campbell: That is correct; that is not a gross figure, but a net figure.

Senator Cook: What is the difference between net and gross?

Mr. Campbell: Gross figures, senator, are reported, in which certain associations will take a page and assume that everyone is paying the same one-time rate for the page whereas, in fact, there are 12-times discounts and 52-times discounts and so on. So the real figure is the net figure. The figure we estimate for 1975 is \$8,178,000. Mr. Hodgkinson I believe is in a much better position to indicate how much of that revenue he considers they could conceivably maintain.

Mr. Hodgkinson: This figure of \$8,178,986 is the figure that is given by *Time* magazine as its actual revenue to the Magazine Association of Canada.

The Chairman: Is that gross, or net?

Mr. Hodgkinson: Net; this is the actual revenue that they received, so that is not really an estimated figure but

an actual figure. If *Time* decides to not carry advertising in Canada, then obviously some \$8 million is going to be on the market for those media which can sell the advertisers that their media deserve a part of that advertising. It may not be given to anyone; it will have to be earned by somebody and those somebodies may be some of our magazines, I guess any magazine, some newspapers, weekend newspapers and some broadcasting.

Senator Cook: Is that \$8 million figure given by *Time* related to Canadian advertising?

Mr. Hodgkinson: Yes; in its *Time* Canada edition.

Senator Cook: They will appear before us, but assuming that they continue to solicit Canadian advertising at lower rates, would you hazard a guess as to what the gap would be between the Canadian advertising revenue, from now on, and that figure?

Mr. Hodgkinson: By their own estimate for this year they have said they expect to carry \$4 million worth, or roughly half. However, we are competitors and we have not said yet what we hope to do, but we hope that we will be able to compete a little harder with them and that other media will compete a little harder with them and maybe they will not get as much as they think. They might this year, but next year I think it would be another story and the following year another story again. I think we now would be in a position in which we could compete on much more equal terms, as would be all other media. When I say "we" I am referring to domestic Canadian periodicals and newspapers.

Senator Walker: Mr. Chairman, I have not interrupted up to now, but I have some questions which, if Mr. Campbell does not mind, I will address to Mr. Hodgkinson.

Mr. Campbell: Yes, indeed.

Senator Walker: You will remember the excellent promotion piece published by you on October 6, 1975.

Mr. Hodgkinson: Yes.

Senator Walker: I would like to enter this as an exhibit after I have examined on it briefly. At page 3 appears: "Why Straight Answers From the Publisher". You are the publisher, Mr. Hodgkinson?

Mr. Hodgkinson: Yes, I am.

Senator Walker: Would you go half way down the page? You were being accused of being opportunistic and your answer was, "How do you mean?" The article continues:

Q. That you've exploited a situation that's been handed to you on a platter?

A. Guilty.

Q. You admit it?

A. Certainly. Any business—and make no mistake, magazine publishing is a business—a strange one with special responsibilities, but a business. Any business that doesn't take advantage of opportunities ought to go home to mother.

You have got it; you are reading it also, are you not?

Mr. Hodgkinson: Yes.

Senator Walker: That is very picturesque. Now, carrying on, the article reads as follows:

Q. Is *Maclean's* good enough, big enough, skilled enough to replace *Time* magazine?

This was in October, 1975. The article continues:

A. We're not replacing "itTime"ro magazine. We're competing against it. And we've got one great edge over any foreign-owned publication, especially those only printed here. We can dig out pieces they can't touch. Can you imagine *Time* or *Reader's Digest* printing, for instance, that feature we ran on James Richardson? No way. They're guests here. They've got to be careful. They can't afford to offend the government because the government, in effect, holds their franchise. We are not guests. We live here.

Did you make that answer?

Mr. Hodgkinson: I made part of that answer and I do not necessarily disagree with it. You must realize that what happened on this was that advertising people come in, sit down and talk to you and ask a lot of questions, which you answer as best you can. They go back and write it up as a promotion piece but, essentially, yes.

Senator Walker: Essentially, yes.

The Chairman: They do not submit it for your approval?

Mr. Hodgkinson: This is a piece that is distributed to the advertising community and it is a sales piece of copy, but I do not necessarily disagree with that.

Senator Laird: Ghost writers.

Senator Walker: He did not say that.

Q. All right, but are you good enough to compete against their immense resources and experience?

I presume this is a question concerning *Time*?

Mr. Hodgkinson: Yes.

Senator Walker: And your answer was:

You're damned right we are.

Mr. Hodgkinson: I could not agree more.

Senator Walker: You could not agree more. So, now, as far as you are concerned, even if *Time* had remained, you could have competed against them successfully, could you not?

Mr. Hodgkinson: *Maclean's* has been here since 1905. It has competed against *Time* since 1946.

Senator Walker: Nineteen forty-two.

Mr. Hodgkinson: Since 1942. It has not been economically successful in its competitive marketplace. I think that we were learning how to be a little bit more successful in our recent past. But you must remember that as soon as we start to back them off a little bit, they can pull a lever that we can't. They can reduce their advertising rates to whatever level they want to, and force me right out of the picture.

Senator Walker: Did they, at any time?

Mr. Hodgkinson: They have not had to.

Senator Walker: No; and did you not support them at all times? You were supporting them in 1971, when I spoke about this the first time in the house.

Mr. Hodgkinson: We did not really support them, sir. I would like to go back to that, because I have read some of the discussions and I felt that perhaps there is a slight misinterpretation of our position there. You really have to go back to the beginning of these inquiries—at least, the ones that I have been involved in. I first was asked to appear before the O'Leary Commission in 1958, I believe it was, or 1957, and at that time I took the position that Canadian editions of foreign publications were detrimental to this country. There were two or three years of discussions on that. There was a lot of debate, and when the government finally acted upon it, they precluded *Time* and *Reader's Digest* and put in section 19. We had been through four or five years of public debate, where all of the ins and outs of the magazine publishing industry had been spread all across the newspapers and broadcasting systems of this country and had made us look like—well, I guess the expression is washing all your linen in public. That does not do anyone any good.

So we had determined at that time that regardless of the outcome we would go along with the government decision and try to mend the fences, and try to get the industry so that it did not look like it was totally dissected, and that it was a stronger force in the country.

So we formed an association with *Time* and *Reader's Digest* called the Magazine Association of Canada, with a view to promoting magazine strengths to the advertising community primarily.

About 1970 or 1971, Senator Davey and the committee studying the mass media invited us to appear. I have my exact text here. I could quote it, because I think that —

Senator Walker: Well now, if you will just answer my question —

Mr. Hodgkinson: We said, "Leave us alone —

Senator Walker: Just one moment. Please answer my question. Boiling down all that, you supported them vociferously in 1971.

Mr. Hodgkinson: No.

Senator Walker: Not vociferously.

Mr. Hodgkinson: What we —

Senator Walker: Did you oppose them?

Mr. Hodgkinson: No.

Senator Walker: No. Did you support them?

Mr. Hodgkinson: No.

Senator Walker: No. Were you neutral?

Mr. Hodgkinson: Yes.

Senator Walker: Well, that is news to me. We were under the impression that you supported them.

Mr. Hodgkinson: No; oh heavens, no.

Senator Walker: Did you ever say anything against them?

Mr. Hodgkinson: Not at that particular —

Senator Walker: And you at no time suggested at that time that their advertisers should not have the benefit of deducting advertising for income tax purposes?

Mr. Hodgkinson: We did not say that they should change that section, and we did not say that they should do anything. We simply stated that we would like not to go through another five years of public debate on magazines because that is very detrimental to magazines totally, and that as far as we were concerned we would just as soon they leave things as they are.

Senator Walker: Exactly.

Mr. Hodgkinson: A pragmatic approach.

Senator Walker: In the meantime, you have been getting more powerful all the time, have you not? Let us find out how powerful you say you are getting:

Over the past four years —

This is at the top of the third column:

— we've increased and tightened our articles. Departmentalized our subjects. Introduced continuous page sequences. Introduced the Metro Toronto and BC news sections, which taught us how to deal with late deadlines. And we've been to school.

Q. I beg your pardon?

A. This is a tough business. It kills dinosaurs. It killed *Life*, *Look*, *The Evening Post*,

And so on. You then go on to say:

And you want to go world class, you'd better go to school with the best: *Paris Match*, *Der Spiegel*, *Newsweek* —

You have a connection, a contract with them, have you not?

Mr. Hodgkinson: No, we do not, sir.

Senator Walker: What have you with them, what relationship?

Mr. Hodgkinson: Well, back in 1971, I sent Mr. Newman on a trip around the world—he was doing some articles in Germany—and I asked him to do a study for me of the news magazines in Europe, and to make some contacts with them as a source of information, if they would be willing to give it to us. This he did. We also talked to the *Newsweek* people, with whom we have—I should not say we do not have an arrangement with *Newsweek*. We do, but it has nothing to do with their magazine. We have an arrangement in the selling of *Newsweek's* "Great Museums of the World" book series.

Senator Walker: You know, I would love to hear you—we will spend a day some time—but would you just answer my questions.

Mr. Hodgkinson: We had —

Senator Walker: Just a moment. When I am through, make a statement. Just answer my questions. What relation have you to *Paris Match* of Paris, *Der Spiegel* of Berlin, Germany and *Newsweek*?

Mr. Hodgkinson: None.

Senator Walker: None whatever?

Mr. Hodgkinson: Well, other than —

Senator Walker: Then why did you mention them?

Mr. Hodgkinson: Well, because—I do not have a relationship specifically with you, senator, but if I were to ask

you a question, you would give me some information that was helpful. That is what we are doing with *Der Spiegel*, *Paris match* and *Newsweek*. They are giving us information that we do not have.

Senator Walker: You say:

Those friends turned out to be better friends than we ever dreamed. *Paris Match*, *Der Spiegel* and *Newsweek* opened their doors to our senior editorial people... They showed us everything. What to do... Techniques—

And so on. Is that correct?

Mr. Hodgkinson: Yes sir.

Senator Walker: Now, going over to how you are going to bring this about. I am trying to cut this down because senators have been here for an hour and a quarter now:

How is it done? How is an inward-looking, nationalistic, general interest monthly converted to a fast-moving news magazine with world ambitions...

Simple.

Double the editorial staff: writers, editors, columnists, artists.

This is you speaking, correct?

Mr. Hodgkinson: Yes.

Senator Walker: It goes on:

Open permanent bureaus in Washington D.C., London U.K., Ottawa, Montreal, Vancouver, Edmonton.

Have you done all that?

Mr. Hodgkinson: We did not open in London. *Newsweek* advised us against it.

Senator Walker: But you did not open in London?

Mr. Hodgkinson: No.

Senator Walker: I don't blame you.

Mr. Hodgkinson: That is right, although we do have a permanent resident writer there.

Senator Walker: You go on:

Scout and hire the best correspondents and stringers in these key locations: New York, Paris, Tokyo, Regina, Winnipeg, Quebec city, Fredericton, Halifax, Charlottetown and St. John's.

Have you done that?

Mr. Hodgkinson: Yes, sir.

Senator Walker: All right.

Senator Molson: And all points east.

Senator Walker: What was that, senator?

Senator Molson: "All points east," I said.

Senator Walker: Next:

Arrange to buy the world's best news services: the Associated Press (AP) wire, the Reuters service, the Dow-Jones financial wire; plus services providing access to the full editorial content of world-class newspapers; plus the United Press International (UPI) Photo Service; plus Canadian Press; and so on.

Have you done that?

Mr. Hodgkinson: We have done that, but we have since cancelled our arrangement with the *Washington Post*.

Senator Walker: I will make a note of that. That was a smart move, I think, after all those revelations.

Mr. Hodgkinson: The *Toronto Star* made us cancel it because they had the rights.

Senator Walker: Next:

Count and utilize your blessings. Over the years Maclean-Hunter has built a formidable international communications empire. (Its size and scope may well astonish you. Its size and scope often astonishes us.) In Canada, we're involved in 101 various business, technical consumer and special interest magazines and newspapers, including the *Le Maclean*, *Chatelaine*, *Financial Post*, and *The Medical Post*;

You have a medical journal too, have you not?

Mr. Hodgkinson: Yes, we do.

Senator Walker: That is why you are somewhat interested in the other one.

The Chairman: Senator Walker, there seems to be a distinction between a clinical journal and one which deals with the various aspects of medicine but does not discuss it from the point of view of treatment and dosage. Which category does your journal come under, Mr. Campbell?

Mr. Campbell: Ours is a news periodical, Mr. Chairman, and contains the kind of clinical opinions that you are talking about. In other words, we would cover every large medical conference in the world and report from those conferences what takes place.

Senator Walker: I will not be much longer, Mr. Chairman. The piece continues:

— five radio stations, a TV station, cable TV and programming services? In England, we produce 12 business and technical magazines. In the U.S., we have eight business journals and three cable TV systems. In South Africa, four magazines and size marketing services. In Europe, we co-produce six media publications in the key cities of Paris, Frankfurt, Milan Vienna. And, as of 1975, we're in the publishing business in Brazil —

We're good corporate citizens of those countries. We have dozens of highly trained writers and editors out there. Each is armed with contacts, know-how and the native language. We count these blessings and will not hesitate to use them when needed.

Is this system truly global? No, it isn't. Is it as sophisticated as we'd like it to be?

No again.

But it's a damn good start.

And so say we all, Mr. Hodgkinson; so say we all. That is the end of your discourse.

With all that wonderful background, aren't you far better prepared—given this magnificent thing that, between the two of you, and with others, you have built up—to compete in Canada than is *Time Canada* itself? Aren't you in a better position to compete in Canada than is *Time Canada*?

Mr. Hodgkinson: In a better position?

Senator Walker: Yes.

Mr. Hodgkinson: I think we can compete.

Senator Walker: And you can compete better than *Time* Canada, given all this wonderful background. I admire it to no end. I am serious.

Mr. Hodgkinson: The word "better" is yours, senator. I did not use that word.

Senator Walker: You wouldn't be boastful. Let's put it this way: just as good. Correct?

Mr. Hodgkinson: We can compete.

Senator Walker: Yes. And I am suggesting that on a worldwide basis, *Time* does not begin to have the resources that you have to pick up news, even with all of these news services, and so forth, in the United States. Correct?

Mr. Campbell: No, senator. We are a drop in the bucket. *Time* and *Reader's Digest* are the two largest publishing organizations in the world. They are giants.

Senator Walker: Exactly, and yet you have competed with *Time* well, haven't you?

Mr. Campbell: No, we have not.

Senator Walker: According to Mr. Hodgkinson you have.

Mr. Campbell: We have lost money, senator.

Senator Walker: That is because you are trying to make a weekly magazine out of what has been a monthly magazine.

Mr. Campbell: We believe that it should be a weekly publication, senator, if we are going to serve our public.

Senator Walker: In the past, it has been a pretty pathetic magazine, hasn't it? Until you people came along, it was pretty pathetic.

Mr. Campbell: No, senator. In the days of Ralph Allen, and so forth, we turned out excellent product. I think we have turned out some excellent product during our history, going back to 1905, but we have certainly had our ups and downs.

Senator Walker: When you gave this report for the promotion piece, Mr. Hodgkinson, which was published in October 1975, you were well prepared to compete with *Time*, weren't you? According to your wording, you were.

Mr. Hodgkinson: I would like to explain this, and I will be very brief on it. I have said that *Time* had spun the myth that they were the only ones in the world who knew how to produce a news magazine. To the community out there, I have to explode that myth, so I am using in this piece of promotion every little piece of information I can use which will help explode that myth, to win confidence.

Senator Walker: And it is pretty good, isn't it?

Mr. Hodgkinson: Certainly it is.

Senator Walker: The points you make are pretty good.

Mr. Hodgkinson: Certainly.

Senator Walker: The power that you have behind you is gargantuan. I had no idea you were as powerful as you are.

Is there any reason whatever why *Time* should have, as you say, its licence lifted? Is that what you said? It wasn't suggested by you that that should be done, was it?

Mr. Hodgkinson: No.

Senator Walker: To quote you:

They can't afford to offend the government because the government, in effect, holds their franchise.

So the government has now, in effect, lifted its franchise, and you are alone in the field, aren't you?

Mr. Campbell: No, we are still competing with *Time*, senator. We are competing with it for readers, as we are competing with *Newsweek* and *U.S. News & World Report* for readers, and with 1,330 other magazines.

Senator Walker: But there will be no other magazine in Canada in the big league that can compete or stand up to you now in terms of the Canadian and international sections? For example, *Newsweek* has no Canadian section, has it?

Mr. Campbell: No.

Senator Walker: No other American magazine has a Canadian news section.

Mr. Campbell: No.

Senator Walker: Forgetting about Maclean-Hunter for a moment—we are all interested in that—would it not have been better for the Canadian public to have had *Time* still in the ball park playing with Maclean-Hunter? Wouldn't that have been better for the Canadian public?

Mr. Campbell: I would like to see another Canadian news magazine.

Senator Walker: You would like to see another Canadian news magazine! Well, can you imagine anyone starting up against you, with all the power that you have? Can you think of anyone who might start up against you?

Mr. Hodgkinson: Yes.

Senator Walker: Who?

Mr. Campbell: The *Toronto Star*. It is in the magazine business.

Senator Walker: Yes, that is right.

Mr. Campbell: It is Canadian.

Senator Walker: Yes, and it is gargantuan, too.

Mr. Hodgkinson: Southam, too.

Senator Walker: Well, Southam is mixed up now with the *Toronto Star*, is it not?

Mr. Campbell: Lord Thomson.

Senator Walker: Well, he tells me he is losing interest in these things now. He is 81, but he is still interested in making money. He is a grand person; I appreciate that.

Mr. Chairman, I do not want to labour this thing too much longer.

You are naturally glad that *Time* has finally been forced out, aren't you?

Mr. Hodgkinson: I am ambivalent about it.

Senator Walker: You are ambivalent about it. Well, that is a damn good word.

What about you, Mr. Campbell, are you ambivalent about it, too, or have you a more direct feeling on the matter?

Mr. Campbell: Yes, I do, and that is part of our company; we often have differences of opinion. I feel that if *Maclean's* is going to succeed, it must go to weekly frequency, and the only way I can see it going to weekly frequency and turning out a responsible product is if in fact the marketplace will support it, and the marketplace is both the advertiser and the reader. I just do not see that happening.

Senator Walker: You do not see that happening. On the other hand, Mr. Hodgkinson sees the *Star* coming along and competing with you.

Mr. Campbell: I think I was the one who mentioned the *Star*, senator. You asked where the potential competition is, and all I can do is assure you that there is all kinds of potential competition.

Senator Walker: Yes. If you are ambivalent, Mr. Hodgkinson, would you have been just as glad had *Time* been allowed to remain, on terms?

Mr. Hodgkinson: Would I have been just as glad?

Senator Walker: Yes, just as happy.

Senator Cook: Or unhappy.

Mr. Hodgkinson: I personally am not afraid to compete with *Time*. I never have been.

Senator Walker: I do not think you are afraid of anything. Go ahead. That is very frank of you.

Mr. Hodgkinson: I think there are values in having *Time* here and there are disadvantages in having *Time* here. I do not view *Time's* presence in Canada in relation to *Maclean's* magazine. I think of it in relationship to the general publishing of periodicals in Canada, and for that reason I think it would be better if *Time* were not here. If I were selfish and related it only to *Maclean's*, then I guess I would say that I do not give a damn, and that is probably the way I feel.

Senator Walker: All right. My final question is this: Did you have any part in guiding Mr. Faulkner, who is vehement about this thing—he is almost like a person suffering from schizophrenia in that regard—did you have anything to do with preparing his mind for the bitter attitude he has taken towards *Time*?

Mr. Hodgkinson: No, senator.

Senator Walker: Did you even promote or suggest to the government, either directly or indirectly, that *Time* should be, as it has turned out, kicked out?

Mr. Hodgkinson: Before the introduction of Bill C-58?

Senator Walker: Yes, before.

Mr. Hodgkinson: No, I did not specifically make any suggestion of that kind. I did prior to 1965.

Senator Walker: Not after that?

Mr. Hodgkinson: No.

Senator Walker: That is when the Honourable Mr. Gordon, the great nationalist, brought in his disputed part of the legislation, in 1965. Is that correct?

Mr. Hodgkinson: Yes.

Senator Walker: After the bill was introduced did you ever make representations that *Time* should be wiped out?

Mr. Hodgkinson: Yes. When *Time* was trying to get an interpretation from the Honourable Mr. Basford on the "substantially different" clause, and they were suggesting that that should be somewhere in the area of 40, 50 or 60 per cent, I made representations and spoke against it. When I figured that the whole thing was now becoming a public debate, which I was trying to avoid, yes, I was against them being here.

Senator Macnaughton: Senator Austin put his finger on something that has befuddled me in reading the various submissions. I refer to the 80 per cent Canadian content rule. Is there any magic in this 80 per cent figure? Would 70 per cent be impossible for you to operate under?

Mr. Hodgkinson: That is a difficult question to answer. I think it should be at least 80 per cent, and I think that for this reason. As a publisher, if I can take 30 or 40 per cent of my editorial content and put that off to a new magazine, I might take 80 per cent of the budget to prepare that. In other words, there is a certain type of editorial material which is very expensive to get. There is a certain type which does not cost you anything. For instance, letters to the editor do not cost you anything; some columns do not cost a great deal; some well-researched in-depth pieces cost you a lot; world news costs quite a bit. If you were able to use, say, 40 per cent of the editorial column of somebody else, that 40 per cent could represent 75 to 80 per cent of the editorial budget for the magazine.

I think it should be at least 80 per cent, because you can still take the little nugget that costs a lot of money, and that may represent 40 per cent of your editorial budget. To give someone the advantage of bringing in 40 per cent of their budget is, I think, very substantial. That is the way I feel about it. But the 80 per cent is not my doing. We have spoken out and said it should be 100 per cent. We have talked about it certainly being in excess of 80 per cent.

Senator Macnaughton: I presume that the fields of broadcasting and newspaper publishing are entirely different from yours.

Mr. Hodgkinson: Yes, I think they are.

Mr. Campbell: Totally different.

Senator Macnaughton: They could not possibly exist under that 80 per cent rule, could they?

Mr. Hodgkinson: I am not familiar with broadcasting. Mr. Campbell certainly is much more familiar with that.

Mr. Campbell: It is an entirely different medium. Our heavy costs are in editorial, printing, paper and ink, the physical publishing.

Senator Macnaughton: Does 80 per cent give you full protection, in your opinion?

Mr. Campbell: We believe that we can accomplish our goals with an 80 per cent figure, yes.

Senator Macnaughton: Could you accomplish your goals with 70 per cent?

Mr. Campbell: We don't think so. It starts to get a little shady. I do not think there is anything magic about 79, 80 or 81 per cent. We just feel, in our opinion as publishers, that 80 per cent is the minimum that would succeed.

The Chairman: Would you say 80 per cent is a shut-out percentage?

Mr. Campbell: I think it very clearly indicates the government intent, yes.

Senator Walker: What was the intent? To have a shut-out?

Mr. Campbell: It has been stated in several reports that Canadian advertising dollars should go to Canadian advertising media, that it should not flow across the border to support non-editorial costs.

Senator Walker: Would you not mean by "intent" that they knew and expected it would be shut out by a prohibitive figure like that?

Mr. Campbell: I don't know, senator. I assume that the intent back in 1965 was pretty clearly defined, and that this is a refinement of that 1965 legislation.

Senator Cook: Would you not agree the government would have been more consistent if they had also held firm on *Reader's Digest*?

Mr. Campbell: I would have said so, that that would have been a more consistent policy to put forward, yes.

Senator Walker: When the French-Canadians get on the warpath, as they did at the Battle of Châteauguay, they get pretty rough. They had an overwhelming demand that it remain, didn't they?

Mr. Campbell: I don't know. Ottawa is a strange world to me. I fight all my battles in Toronto.

Senator Macnaughton: Some people might say that that 80 per cent would give you a monopoly in Canada. However, I think you have answered that by saying that the Southams are there, Lord Thomson is there, and other people are there.

Mr. Campbell: We honestly believe that you are going to see a rash of new Canadian publications, and not by us. We have announced our plans, what our first goal is. Following that, if we succeed I think we would like to come out with some additional specialized Canadian magazines. But you are going to see children's books, you are going to see all kinds of things come out.

Senator Buckwold: I happen to be one who philosophically fully supports this bill, but I have to tell you that my feeling has been shaken by your advertisements promoting the fact that you have discouraged rural readers. I come from Saskatchewan, and this upsets me. I have here a letter from Mr. Hodgkinson. I can understand that a good mix is good business, but you say:

To interpret this as meaning we are not interested in having rural readers of Maclean's is ridiculous.

I have here an ad in *The Financial Post* of April 3, in which you outline to prospective advertisers how you are trying to jack up your urban circulation. Secondly you say:

... we wanted our small-centre and rural circulation cut —

And you use italics for "cut". That shocked me a little bit. You continue:

... bringing us to a nicely honed, grand total of 675,000. . . .

We've tried, God knows we've tried. We doubled our subscription price.

That I want to find out about. What do you mean when you say you have doubled your subscription price? Is that to rural readers?

Mr. Campbell: Everybody.

Senator Buckwold: That is not what this says.

Mr. Campbell: We have one price for anybody, consistent throughout.

Senator Buckwold: But your advertisement leads to an ambiguity. I am happy to hear what you say now, and this is why I am raising it.

Mr. Campbell: Senator, you said you were shocked. May I say that I was shocked too when I read that?

Mr. Hodgkinson: So was I.

Mr. Campbell: I think you can tear that ad up. It should never have been published, it should never have been presented, and I apologize for it.

Senator Buckwold: It has evoked some very real concern. You go on to say:

We dramatically changed our editorial appeal, slanting it directly at city folk. We stopped all minor market circulation efforts. With all that cold-shouldering we figured to be down . . .

That is pretty strong talk for those of us who think the rural area is also entitled to some slant of the news. Are you really now just going to direct your editorial material towards city folk, as you say?

Mr. Hodgkinson: No. That advertisement was prepared by an advertising agency in conjunction with our promotion manager. I was away; I was not at the circulation meeting. The day I returned I saw that advertisement, and that was the day it was appearing in the *Globe and Mail* and *The Financial Post*. I was just as shocked as you are about it. I do not agree with the statements in that advertisement. There were some concerns about getting distribution in time to some of the smaller communities. If we were dealing with a news product, we knew that we could get the news product distributed to the urban community at a time when it was still news. We had been having a lot of difficulty with distribution by the Post Office, particularly in the rural communities. We are finding that a news magazine which was available on the news stand on Wednesday was arriving in Saskatchewan sometimes ten or twelve days later. The next issue is already hitting the news stand.

So, that concerned us very much. We said, "Until we get that problem licked, we are going to concentrate our efforts in the urban communities," not cutting off the people who want to subscribe to it, but it seemed ridiculous to be putting an extra promotional effort into the rural communities when we were not sure we could get the magazine to them while it was current. That was the concern.

Senator Buckwold: You say you want to cut rural circulation, that is what you say.

Mr. Hodgkinson: That is not what I say; that is what the ad says. It was a bad ad.

Senator Hays: What are you going to do to crack it?

Mr. Hodgkinson: Continue to sell the magazine.

Senator Hays: Are you going to use a similar ad and say, "We were all wrong"?

Mr. Campbell: I don't believe so, senator, because we would be just emphasizing something which was wrong in the first place and you are just, in effect, drawing more attention to it. The best thing to do is to hope it goes away and goes away quickly.

Senator Smith (Colchester): It indicates the existence, within your organization, of a pretty strong opinion, as reflected in the ad, otherwise it never would have got there. What are you going to do about it?

Mr. Campbell: That is fixed.

Senator Buckwold: I want to ask you a question about the subscription price. You say you have doubled your subscription price. Can you explain that? This is right across the country. The magazine costs twice as much as it did a few months ago.

Mr. Campbell: The number of issues, senator, has doubled as well.

Senator Smith (Colchester): So did *Time*.

Senator Buckwold: Yes, you have satisfied me on that, the number of issues has doubled and, therefore, the subscription price logically should double.

Mr. Campbell: Our rate, by the way is \$8.

Senator Buckwold: I am glad you answered that. I should have been smart enough to realize that you had doubled the number of issues.

Mr. Campbell: By the way, senator, we have subscribers who have bought for ten years in advance or five years in advance. They are getting the five years, even though they would be getting double the number of subscriptions they in fact ordered and paid for, but we are honouring that commitment on a time basis.

Senator Buckwold: I would add just one minor comment, and that is that if you want the best market, the most lucrative market you can get today, go to rural Canada. Your advertisers might be interested in that.

Senator Molson: Do you still have the same advertising agency?

Mr. Campbell: No comment.

Senator McIlraith: Mr. Campbell, I want to deal with two unrelated points.

Why is it that *Time* magazine can regularly be delivered to its subscribers in Ottawa on a set date, while in the case of the subscriber, he receives his edition two weeks after it appears on the news stand? What is wrong?

Mr. Campbell: We believe there is something seriously wrong with it too, senator. We are spending a great deal of time working hand in hand with the Post Office. The Post

Office now has employees in our plants. The argument we get back, or the rationale, if you will, is that they are coming out on a weekly frequency and the Post Office is geared up to handle it, therefore, on a weekly basis. In our particular case, we put in 750,000 copies, but on every second Monday or Tuesday. Consequently, they are not geared up to handle us on that frequency.

I was just amazed yesterday when I got my *Wall Street Journal* of May 11 on my desk on May 11. This is coming out of the United States, and it makes you wonder.

Senator McIlraith: I can tell you subscribers here are getting the magazine two weeks late through the mail. That is when the next edition is in your hand, and you have read it.

Mr. Campbell: Senator, first of all, we are working as closely as we can with the Post Office. We are publishing on time and we are getting our presses rolling when they are supposed to. We are getting it out of our mailing room when it is supposed to, after full binding. We are air freighting at a fantastic cost to get copies down to the east coast, Quebec City, out to Vancouver. We are doing everything we conceivably can. It becomes more and more important, of course, for us when we go to a weekly frequency.

Senator McIlraith: I would like to raise a point quite different from anything else discussed this morning. Have you a copy of the bill before you?

Mr. Campbell: I have it in my files, yes.

Senator McIlraith: The bill is in two parts and has only four clauses. The part of the bill which relates to broadcasting has quite a different scheme for bringing the change in the tax law into operation. It provides, first of all, for a later date for that section to come into force. Then it provides, at some length, that the right to deduct by advertisers is said to protect and advertiser who has contracted for 12 months, if he has contracted before the date of the bill coming into force.

The part of the bill relating to the periodic press is the part with which I am concerned. First of all, the sections shall come into force on the first day of January, 1976.

Then, the new 19(1) provision deals with advertising space in an issue of a non-Canadian newspaper or periodical dated after December 31, 1975. Therefore, an advertiser who has contracted for the newspaper periodical in January of this year, or after, has no right to deduct that. Have you any comment at all on the difference in treatment as to time? I only raise the point of retroactivity in time between the broadcasting part and the periodic press part.

Mr. Campbell: I am aware of some of the problems on the broadcasting side, as I understand it. The question was one particularly of the Vancouver marketplace where, in fact, there were not opportunities for advertisers to participate because of the number of stations there. That has since been rectified, I am told. There will be a further Canadian television station in the Vancouver marketplace, or the B.C. marketplace in the fall of this year.

So, until those are put into place, it seemed to me that it made sense—although, obviously, I had nothing to do with the drafting of the bill, or even saw it until it appeared—and that was the rationale behind doing it in two phases.

Senator McIlraith: The broadcasting part of it is quite clear. They have made provision so there would not be a

retroactive penalty on the individual advertiser who had acted within the law. It is the periodic press part of it that is retroactive.

Mr. Campbell: I did not look upon it as being retroactive when, in fact, notice had been given and dates had been spelled out. I think everyone within the advertising community was fully aware of the associations, the advertisers, the agencies and so on as to the timing of this particular bill. I do not look upon it as being retroactive.

Senator McIlraith: I would like to pursue that a bit further. It clearly is, as it reads, retroactive, and there was no budget preceding this, the traditional method of giving notice of any change in taxation. There was nothing but the bill introduced in the House of Commons, and bills have a habit of passing, or not passing, or being amended. Does that strike you as a harsh method?

Mr. Campbell: I guess it does depend on your interpretation of the bill and, in fact, whether the bill would go through. I could only assume that had we been a buyer, advertising during this period of time, we would have done it with great caution. We would have gone in with our eyes open. We would have known what, in fact, the bill said and its intent and the timing of it. I hope we would not have been caught in a retroactive situation.

Senator McIlraith: If other small advertisers were not as astute as you were, and acted within the law, surely they ought not to be penalized and surely it makes no difference to the periodic press?

Mr. Campbell: Any advertising that you say, senator, would go in the major publications such as *Time* and *Reader's Digest*, of course 99 per cent of that would be handled through advertising agencies. I cannot imagine an advertising agency in this country that is not fully familiar with Bill C-58 and its proposed timetable of implementation.

Senator McIlraith: We have talked a great deal about *Time*, *Reader's Digest* and *MD of Canada*. How many other magazines are there in the country which may be affected by this legislation?

Mr. Campbell: To my knowledge, there is none, senator.

Senator McIlraith: None at all?

Mr. Campbell: There are several newspapers, I believe, which could conceivably come under this particular piece of legislation. There was no other magazine that, in fact, after 1965 slipped into the country, which was loosely described as a sex book for doctors. It came under the technical-educational classification. It was appealed to the courts and the courts granted them an exemption.

Senator McIlraith: Can we take it that when we come to deal with some more tax legislation later on you will have no objection to a retroactive provision when it makes no difference to the industry?

Mr. Campbell: Yes, I just personally do not like retroactive legislation. I think it is wrong. I am personally opposed to it.

Senator McIlraith: I happen to think it is wrong, too.

Mr. Campbell: On the other hand, senator, I just do not look upon this as being retroactive legislation. In other words, everyone has been put on notice.

Senator McIlraith: So you are determined or at least seem to favour the retroactivity provision. I do not understand that, because you say that *Time* has moved out and the advertisers were not affected most of them. I do not understand your point.

Mr. Campbell: I have said that the advertisers have gone into this through their agencies with their eyes wide open, knowing very well that, if Bill C-58 passes, the effective date of it will be January 1.

Senator Cook: It is hardly the witness's fault. I think the problem arises from the fact, Mr. Chairman, that when the minister speaks he seems to think he makes the law. In other words, if he says the law is going to be so and so, he just assumes that Parliament is going to pass it. I agree entirely with Senator McIlraith that it is not the fault of *Maclean's*, but that it is the fault of the minister.

Senator Walker: Let us be fair to the president. You do not go along with a minister who says that if 80 per cent does not work, is against the law and is so found in the courts, then we will have legislation in Parliament to make it work? You do not agree with that, do you?

Mr. Campbell: Yes.

Senator Walker: And to do it in that way?

Mr. Campbell: I don't know how you do it and how things happen down here, senator. I must apologize for that.

Senator Walker: Sometimes you write like that.

Mr. Campbell: I am really quite confused.

Senator Molson: Join the club!

Senator Walker: I think it is smart, nevertheless, to say this. It sounds all right.

Mr. Campbell: I just appreciate, senator, that in our own company if we pass—not pass, because we don't pass; but, say, as a board we make a decision that we are going to do something and we find out that although it very clearly states our intent it does not in fact come out that way, then we will change it so that the intent is, in fact, carried out.

Senator Walker: But if it is against the law and so found by a court, you would not step in.

Mr. Campbell: Oh, heavens no! I must abide by the law.

Senator Walker: That is not what Mr. Cullen was saying.

The Chairman: Senator Davey.

Senator Walker: Mr. Chairman, before Senator Davey speaks, there is some material I should like to have appended to the record of our proceedings today. The first is the release dated October 6, 1975, of the "Making of a News Magazine, *Maclean's* special edition," a promotion piece published by *Maclean's* on behalf of *Maclean's* magazine *New Venture*.

The Chairman: Yes, Senator Walker.

For text of document, see page 60.

Senator Walker: I should also like to put in as an appendix the Gallup poll about which I was questioned by the...

The Chairman: By the minister.

Senator Walker: Right. He does not act like one; he acts like a high school teacher. I guess that was his training originally. At any rate, the Gallup poll is dated January 25, 1975, and the first relevant question was: "Should Canadian magazine publishers be given some form of protection or assistance by the government or not?" Forty-one per cent said they should; 36 per cent said they should not and 23 per cent said they didn't know. Then, when those who approved aid, were in favour of aid, were asked what should be done, few of them had specific suggestions. One per cent of all of the respondents specified controls or restrictions on *Time* and on *Reader's Digest*. That is the information I wanted to have put on they record, because that is the one I was berated on so thoroughly.

The Chairman: Yes. It was suggested that you were one percentage point out.

For text of document, see Appendix, page 61.

Senator Davey: Mr. Chairman, I wonder if I could begin by asking Mr. Campbell if, to his knowledge, there is any other developed country in the world which has permitted the two largest media organizations in the world to publish special editions in the language of that country, watched those magazines grow to a point where they eventually commanded more than 50 per cent of the available magazine advertising revenue of that country, and then the country itself, its cultural integrity so threatened, having to introduce this kind of legislation.

Senator Walker: Is this a question or is this a speech?

Senator Davey: I am just asking for the comparable situation in any other country.

Mr. Campbell: Absolutely not, senator. No where in the world, to our knowledge.

Senator Davey: Secondly, I must confess that I rarely agree with Senator Walker, but I did this morning. I had the impression that when Maclean-Hunter appeared before the Senate Committee on Mass Media it certainly did support the position of *Time* and *Reader's Digest*. It was my distinct impression when Maclean-Hunter appeared before the committee that you were opposed to removing these special privileges. My question is, when did the conversion take place, and why?

Mr. Campbell: Might I respond to that, sir?

Senator Walker: Mr. Chairman, my friend, I know, is in favour of what has happened. He is in favour of the bill. But why should he, by suggesting the answer, get the witness to bolster up something that he has said or change his answer? This does not seem right in a Senate committee. We can judge for ourselves. Unless my friend is going to publish this in the newspapers.

The Chairman: You know, Senator Walker, we do not follow the rules of evidence as established in the courts, and we all know that Senator Davey was the sponsor of this bill in the Senate. Therefore, it would be quite surprising if his questions were aimed in any direction other than supporting the bill. But there is a wide latitude, it seems to me, in an inquiry of this kind, especially where you do not have rules of evidence; and if Senator Davey feels that he wants to be sure of getting the answer he wants...

Senator Walker: That he wants!

The Chairman:—then he asks leading questions. I am sure that when you were in court you got away with leading questions quite a lot.

Senator Walker: Occasionally.

The Chairman: I know I did. Go ahead, Senator Davey.

Senator Davey: Thank you, Mr. Chairman. May I have the answer, Mr. Campbell?

Mr. Campbell: I will take just 30 seconds on this, Senator Davey. In 1958, I think in all honesty Maclean-Hunter spearheaded the support of the formation of the O'Leary Commission and we loud and clear as to what Maclean-Hunter's position was. There can be no debate on that. However, when it came along to the year 1970-71, at that time there were three executive vice-presidents of the company, of which I was one, and the controlling shareholder of the company and the president at that time, Donald F. Hunter, was ill in New York, hospitalized with a serious heart attack. He was in intensive care for 31 days. There was some difference of opinion within the company between the business publications division and the magazine division and even between the magazines themselves as to what our approach should be. I recall, because my initial "C" happened to come before the initials of the two other executive vice-presidents, I was chosen to appear before your committee along with my colleagues and present our position. The only position that we could come forward with under the circumstances was a "please leave us alone" position. That was the position, Senator Davey, that we took in front of you. I know that it was probably a shock to you at the time, and it was a shock to some of us, but nevertheless that was the corporate position under those circumstances at that time.

Senator Davey: When did you change your mind, in support of this legislation?

The Chairman: Senator Davey, I thought you were going on to talk about your report, and the statement in your report, that Mr. MacEachern appeared on behalf of Maclean-Hunter, and took a position where he was not opposing the continuance of *Time* in Canada. He thought it was a good Canadian magazine. Is that right?

Senator Davey: That was not the question I was asking. I was asking Mr. Campbell when Maclean-hunter changed their mind.

The Chairman: When you were talking about the conversion, what conversion do you mean?

Senator Davey: The conversion that brings them here this morning in support of the legislation.

Mr. Campbell: Very clearly, senator, the answer is that when we learn from our various sources in Ottawa that this "substantially different from", or, "substantially the same as"—whichever way it worked—would possibly be set at the 50 per cent level, we got down here as quickly as we could, and we said, "Gentlemen, it is probably the end of us. We hope you recognize what this will mean. You are opening the gates. You are not just dealing with two or three magazines that are now restricted; you are probably going to have 30 foreign publications coming into this country under those guidelines." That is when we suggested the minimum of 80 per cent, and that is when we came out of the woodwork.

Senator Davey: Mr. Campbell, within the last year did *Time Canada* attempt to sell its subscription list, or mailing list, to Maclean-Hunter, to your knowledge?

Mr. Campbell: Yes, they did.

Senator Davey: What did you interpret that to mean?

Mr. Campbell: We were staggered that they would think of such a sale. We were very surprised. We understand, from hearsay, that there is one their publisher it was offered to. It was offered to us, however, and we declined.

Senator Davey: Maclean-Hunter owns a company called Metro Toronto News Company. What does Metro Toronto News Company do?

Mr. Campbell: Metro Toronto News Company is a large distributor—a wholesaler. It is not a manufacturer. It is a pipeline that distributes magazines from national distributors to the retail level.

Senator Davey: Do they distribute magazines all over Canada?

Mr. Campbell: No, sir. Basically there are about 3,000 retail outlets in southern Ontario. It would go from Sarnia over to Belleville, and as far north as Orillia and that summer area.

Senator Davey: Is it fair to say that you are the largest magazine distributor in that coverage area?

Mr. Campbell: Yes, we would be.

Senator Davey: And that is the most significant coverage area in Canada, in terms of magazines?

Mr. Campbell: Yes, it would be.

Senator Davey: I ask that question because I was distressed to read in your brief the part where you deal with the problem of overflow magazine circulation in this country. You have informed us that there are 1,400 magazine titles handled, and that 95 per cent of magazines sold in this country are American. That is a matter of concern to me. It is a matter that would be of concern, perhaps, in other places and at other times, but is your lack of concern related at all to the fact that you distribute these magazines?

Mr. Campbell: No, sir. We went further in that particular statement, as I recall, and said that we are not proposing for one moment that that overflow should be stopped.

Senator Davey: You are not concerned at all about the overflow?

Mr. Campbell: We think Canadians have a right to read the *New Yorker*, or the *Wall Street Journal*, or *Newsweek*, or any other magazine that they wish.

Senator Davey: Well, yes, so do I.

Mr. Campbell: To stop that would be wrong.

Senator Davey: I agree, but I am concerned about the other problem.

Mr. Campbell: Well, as long as we are two countries side by side, both basically English speaking, as well as French speaking, of course, in Quebec, we are always going to have to live with this problem. If we are going to live with it, perhaps we can learn to live with it, and we might as well be one of the distributors, doing an effective job.

Senator Davey: You distribute *Time Canada*?

Mr. Campbell: Yes, we do.

Senator Davey: Why is it taking you such a long time to convert *Maclean's* into a weekly news magazine? You talk today in terms of the fall of 1977. That is a long time.

Mr. Campbell: Senator, we first announced our plans back in 1971. We came out on October 6, I believe was the date, in 1975, with our first new issue. It has quite a different format. It has quite a different style. As Mr. Hodgkinson has reported, we have more than doubled the number of editorial people involved, and substantially more than doubled the editorial cost of putting it together.

I think it was Senator McIlraith who mentioned the problems of the Post Office, asking why they cannot deliver on time. These things take a lot of time to phase in, and it takes a lot of time to find out about acceptability from the readers' point of view and from the point of view of the advertiser. Then there is the problem of getting production kinks ironed out and providing the machinery that is going to produce the magazine. Finally, there is the question of how the Post Office is going to cope with giving the proper service.

I would like to be able to sit here today and say, "Gentlemen, we are going to be on a weekly frequency next week." Such a thing would be totally impracticable. We would sink the company if we tried to do that.

Senator Davey: So it is going to take another year, or a year and a half? Fifteen months, I guess.

Mr. Campbell: Perhaps Mr. Hodgkinson could deal with this.

Senator Davey: Perhaps I could ask something else, by way of leading in. Is the new *Maclean's* news magazine thus far successful, in your opinion?

Mr. Hodgkinson: Yes, it is, but I would like to go back to the other point, for just a moment. I believe that we all tend to forget the most important part of the equation, and that is the reader. We have 750,000 subscribers and news stand buyers who bought *Maclean's* magazine as a general feature magazine. In the middle of their subscriptions we are now changing it to a news type magazine. There may be some of our readers who do not want a news magazine, yet here we are marrying the concept of features and news.

We have been testing, testing, testing, throughout the period to determine how many more people want this type of magazine and how many of our present subscribers may not want this type of magazine. To move too quickly before we have determined what the rest of our readers want would be suicide, and would be a breach of trust vis-à-vis the reader himself.

We have taken the first step, senator, and we have had overwhelming success from our readers. We have had good response also from our advertisers, and so I have to say, yes, it is successful.

Senator Davey: Mr. Campbell, it has been mentioned several times this morning that Maclean-Hunter has various broadcasting holdings, and yet you have not been asked about them, so if you will allow me to do so I will ask you if you have an opinion on the broadcasting aspect of Bill C-58.

Mr. Campbell: Yes, I have some opinions on it.

Senator Davey: Would you care to state them?

Mr. Campbell: Could you be a little more specific? The question is so broad. We are dealing with program substitution, we are dealing with deletion and substitution, and so on.

Senator Davey: I am simply asking about Bill C-58 as it relates to Canadian advertisers advertising on American border stations.

Mr. Campbell: I think the same concept holds true, very definitely.

Senator Davey: You support it?

Mr. Campbell: Yes, I do. Again, Canadian dollars should be going to support Canadian media.

Senator Davey: I do not think you, in your particular broadcasting holdings, will be especially influenced, will you?

Mr. Campbell: No, because while cable is now into Calgary, where we have a television station, it is being piped in from some 400 or 500 miles away, from Spokane. We are not in the sort of border situation that Buffalo is, or Vancouver.

Senator Davey: Mr. Chairman, I have a last question, and what I would like to ask Mr. Campbell is this: Let us assume that this committee rejects this bill; let us assume that the Senate rejects this bill. What will then happen to *Maclean's*, and what will then happen to the Canadian magazine industry, in your opinion? I agree that that is a leading question, but I think it is very important, and I think you should be prepared to tell us what your feelings on the subject are.

Senator Walker: That is purely hypothetical.

Senator Davey: I certainly hope it is.

Senator Walker: That has been your only drawback through life—being hypothetical!

The Chairman: Well, Senator Davey, the 1965 law would still be in force.

Senator Davey: Fine. I accept that, of course. That is correct. However, the rejection of this bill by the Senate is a possibility. My question is, what would that mean to the new *Maclean's* news magazine?

The Chairman: I am just pointing out that the witness should have a full statement of facts. He is being asked a question as to what would happen if this bill is rejected. That is all right as long as he is aware of the fact that the rejection of this bill would not reject the 1965 legislation.

Mr. Campbell: I appreciate this. This bill, senator, in my opinion, and I think Mr. Hodgkinson would support me, has already created, because of the timing factor, a tremendous area of uncertainty as far as the advertiser is concerned and as far as the agency is concerned. What is going to happen? Is *Time* going to be here? Is *Reader's Digest* going to be here? Is *Maclean's* going to succeed? The whole thing is up in the air. Then, of course, you have another \$20 million tagged on to the end of that as far as the broadcasting side of the legislation is concerned. So we have been living for some months now in this area of uncertainty and that is hurting. All I can say is that with a future delay there is no way we could meet our proposed time-table. We

can meet that one for 1977 but it should obviously, at best, be put back. What would happen to the industry, I don't know. I would not want to paint too bleak a picture, but obviously it must be negative. It could not possibly be conceived as a positive effect.

Senator Macnaughton: Could you detail to the committee, for our information, your broadcasting activities and holding?

Mr. Campbell: Yes, sir. We have one television station, CFCN, Channel 4 in Calgary, Alberta with rebroadcasting outlets in Lethbridge and some 17 other rebroadcasting facilities filling in pockets in small rural communities around the Calgary market. That is our only area of television. Because of the television situation, we are a member of the CTV Network, because each station is a member automatically of the network. As far as radio is concerned, we have a radio station in Calgary, CFCN, and a radio station in Toronto, CKEY, and two in Kitchener-Waterloo, Ontario, one AM and one FM. We have our fifth and final radio operation in Chatham, Ontario.

Senator Macnaughton: What percentage of company investment and profits would that be?

Mr. Campbell: It is a substantial investment. It is a higher return for us on profitability than our other operations. In other words, we do better in broadcasting than we do in publishing. But as a total of the Canadian broadcasting industry, it represents less than 3 per cent of the industry *per se*.

The Chairman: There is one fact I would like to get on the record, Mr. Campbell. You have announced an advertising rate increase effective June 14. Is that only in connection with your magazines?

Mr. Campbell: It is only in connection with *Maclean's* magazine.

The Chairman: It is not in connection with your broadcasting activities?

Mr. Campbell: No.

Senator Lang: Just following from Senator Walker's question, I gather that *Maclean's* publishes in foreign countries.

Mr. Campbell: Yes.

Senator Lang: Do you publish in the United States?

Mr. Campbell: Yes, we do.

Senator Lang: What is your *modus operandi* there?

Mr. Campbell: We are an American citizen and all our employees are American citizens. They head up the entire company. The board of directors is predominantly American. They receive absolutely no editorial information or material from us. These are specialized business publications dealing with concrete products and printing and that kind of thing. These are relatively small circulation publications dealing with specific industries only, and they are run and managed in Chicago.

Senator Lang: Do they receive any benefit from being owned by you?

Mr. Campbell: We think that our once-a-year planning meetings are useful in that we might be able to make some

suggestions to them or help them with financing or something like that.

Senator Lang: Are they under any disability publishing in the United States because they are owned by you?

Mr. Campbell: None whatsoever.

The Chairman: You mean, Mr. Campbell, that you leave the operation sitting there as an orphan?

Mr. Campbell: Not quite. They obviously have a vice-president of our company that the president of the American company reports to. Furthermore we do not fly over to London every week to deal with our English company. We make a visit once a year.

Senator Lang: Would those same observations of yours apply to publications in the United Kingdom?

Mr. Campbell: Yes.

Senator Lang: And they receive no support from you in terms of editorial content?

Mr. Campbell: None whatsoever. The strange thing is that we have a printing publication in Canada, and we have one in Chicago and we have a printing magazine in the United Kingdom. But there is absolutely no co-ordination or tie-in with any of those editorial people.

Senator Lang: Do you pay any special tax because those magazines are foreign-owned?

Mr. Campbell: Not any tax that other foreign corporations would not pay. We are subject to the same withholding tax on dividends and that sort of thing, but otherwise there is no special tax.

Senator Hays: My question is related to that. If these people are British or South African or American or Brazilian, and you cover these areas, and say there is an uprising in South Africa or something like that and you wire these people and say that you want to know about this, it seems to me that the result would be South African editorial content. I am wondering how far down the road this is going to be defined as to how it falls into this 80 per cent rule.

Mr. Campbell: My understanding, senator, is that there are various tests that are set out in the bill, but as long as it was edited, printed and published in Canada, then that would qualify as Canadian content.

The Chairman: Except that there must not be a continuing arrangement between the magazine in Canada and the magazine in the other country.

Mr. Campbell: There would be no continuing arrangement, and that particular material, in all probability, would not appear in any other country in the world. It is obtained at our direction and at our request. We would have told the person concerned, "This is the story we would like and this is the approach we would like because this is the Canadian angle. Please send us back that kind of story." It would then go to the editorial office for editing in Toronto.

Mr. Hodgkinson: In addition, senator, the arrangement would not be with the publication. It would be with a journalist on a publication; it would be with a correspondent.

Senator Hays: What you would call a stringer. But couldn't that get pretty hairy after a while? It seems to me that it could do so, by definition.

Mr. Campbell: But it is not being reproduced anywhere else in the world.

Senator Smith (Colchester): There are a couple of brief questions I should like to ask, if I may, Mr. Chairman. I understood Mr. Campbell to tell Senator Davey that *Time* had offered to sell its subscribers list in Canada. Can you tell us at what time that occurred?

Mr. Hodgkinson: February 19, 1976.

Senator Smith (Colchester): This year. My next question relates to the remark about the importance of credibility that I think Mr. Campbell made. By way of explanation, I may say that I have read *Maclean's* for as long back as I can remember and probably will remain a reader for some time in the future. I cannot help but wonder what efforts are made to ensure credibility in the sense of having the facts right. I do not pretend to be able to judge every fact I think is wrong to be in fact wrong, but one of the things I have noticed over the years is that it is not always apparent to me that the alleged facts in various articles are true. I wonder what arrangements you have to deal with that problem.

Mr. Campbell: I should like, first of all, to speak to the principle of this and set out what we are attempting to do, Senator Smith. Then I would ask Mr. Hodgkinson to give some specifics. It is our desire to turn out a well-balanced factual periodical, but also one that is entertaining and informative. We go to great lengths, as Mr. Hodgkinson will define. We were talking about one article this morning and the checking that is going on in connection with it. But that is not to say that we will not make mistakes. I do not think that you can look upon any print or any media anywhere that, in fact, does not from time to time make mistakes. We will make our share of them, but we are doing whatever we can to bring a balanced position to the Canadian public, to our readers and we go to some considerable lengths to do that.

Senator Smith (Colchester): I am not suggesting that you look for perfection. The only place I know of in which you will find that is in the Senate! However, I am interested to know what are your arrangements and efforts to achieve the greatest practicable accuracy.

Mr. Campbell: Also, Senator Smith, there is some misunderstanding—and certainly I have had some misunderstanding, because this publishing is relatively new to me—that a column is a column and some of our columns are those about which there is great excitement in the interpretation of facts and so on. The columns and the editorials in the publishing business are looked upon as the opinions of columnists and, obviously, are never automatically the opinion of the publication. Perhaps Mr. Hodgkinson can answer some of these points for you, senator.

Mr. Hodgkinson: With respect to the research of material to make sure that the facts are straight, which is an extremely difficult procedure which we have not mastered completely, but in which I believe we have made progress, we have established an internal research facility. There are presently on the staff of *Maclean's* five people who do nothing but check facts. Mr. Campbell alluded to a story dealing with a major company in Canada which contains 32 facts which our research department wanted confirmed.

They went to the company to get confirmation of those facts and the company called me because they were excited about the story itself and wanted to see it, but that is something we do not do. We had occasion in connection with the Department of Energy who said that our story, for instance, in respect of the hydrogen bomb availability to India was just not a serious thing and inquired as to where we obtained our information? I told the deputy minister that if he would like to see the file I would make it available to him. The file of information was at least 18 inches thick. There were several members of his own department and scientists from approximately seven countries who had contributed to the article. They said that the article was wrong, but if it was wrong it was because they did not agree with what we were advocating. So it was not necessarily fact that was wrong, but it might have been interpretation that was wrong.

We have established a system within the company now known as FDP which is run by another division of the company, the Financial Post division, which does nothing but this. We have just made arrangements with them, as of Monday of this week, to co-ordinate a great deal of research service. It is a very difficult task, but I believe that we are doing everything we possibly can to ensure accuracy.

Senator Smith (Colchester): I can see the difference, of course, between what might be referred to as a column written by a columnist and a story written by someone who contributed that story based on that person's concept of the facts. I am concerned, really, with respect to what you do with reference to that story, as opposed to the columns. I am not referring now to fiction. What do you do to ensure that the basic facts are accurate?

Mr. Hodgkinson: First of all, the structure of the story is outlined by the head of the editorial department to a writer, who will write the story. It is filed and a copy goes to the copy department and a copy to the research department, which checks every so-called fact with another source. They will check with encyclopaedias, government files and records, companies and people specifically to confirm facts. They go desperately on every story to try to meet the deadline. It is exactly the same, of course, as all these magazines are doing. As a matter of fact, three of those doing the checking with us used to be at *Time*. That is one of the things we learned from the news magazine people about which I was questioned by Senator Walker.

Senator Hays: Returning to the matter of defining content, I return to the South African situation once more. You write a story on apartheid and ask an African to do it because you say that he is a South African and, indeed, if he was a Canadian he probably would not be able to write about it as a South African sees it. You then say that that is Canadian content.

Mr. Hodgkinson: No; we would not do it that way, senator. If we were to write with respect to apartheid, which involves two opposing opinions, no matter which one we took there would be a very prejudiced point of view. If we were going to write a story about apartheid we would send our own reporter to talk to people on both sides, so we would not ask for that type of story. If there was a revolution, let us take for an example the earthquake that has hit in Italy, a terrible thing, we would first of all check as many people as we can, as the *Star* has, in my opinion, doing a wonderful job, people living in Toronto who come from that particular area. They would do a story

then relating the earthquake which took place there to the local situation. We would try to do the same type of thing, although not dealing specifically with Toronto, but with people throughout Canada. In that case a reporter might be able to do the job completely, but we would be telling him what to do. So that is Canadian content: It is written by someone in Italy, but it is still Canadian content as far as I am concerned.

Senator Hays: Mr. Chairman, all I want is to be on the record with respect to this. I can see us living with the advertising dollar part, but as far as defining Canadian content, in my opinion that will cause us all kinds of hairy problems.

The Chairman: Senator Hays, I should point out that using the words "Canadian content" may be somewhat of a misnomer, because really what it is is to take the Canadian magazine and check it against a corresponding magazine in the United States. The content requirement is that the difference between the two as to the editorial content under the interpretation must be at least 80 per cent. Now, that does not mean that everything must be written in Canada, nor that articles cannot be taken from all over the world, but the comparison is between Canada and if there is a corresponding periodical in the United States, for instance, there must be 80 per cent difference. Is that correct, Mr. Campbell?

Mr. Campbell: Yes, sir.

Senator Hays: Does that apply to the re-writing of the story?

The Chairman: Yes; in explaining this, the minister said that we consider, for instance, *Time* magazine U.S. and *Time* magazine Canada and check them, and if 80 per cent of the editorial content of *Time* magazine Canada is the same as the United States edition it does not qualify. However, if there is a difference of 80 per cent, it does qualify as Canadian content.

Mr. Campbell: Our understanding of this, senator, is that it does not prevent anyone from publishing anything they like in this country. It merely defines what a magazine must be to be considered to be Canadian for income tax purposes. When we zero in upon it, I think it becomes relatively simple. I do not see us getting into "Did it come from South Africa? Who wrote it?" and so on.

The Chairman: It becomes a matter of difference.

Mr. Campbell: Yes.

Senator Austin: I would like to ask about your experience with respect to the transfer of advertising from *Time* magazine to *Maclean's* or other Canadian periodicals. In asking about it, I would like just a general comment from you and, in a more particular way, does the increase in your advertising rates for *Maclean's* indicate that you have been substantially successful in attracting advertising from *Time* magazine to yourselves?

Mr. Campbell: First, senator, we have not raised our rates. We did not raise our rate back in 1975. This is the first rate increase, which is an 8 per cent one, which we have experienced for some time.

To answer the first part of your question, as Mr. Hodgkinson has said, yes, we are meeting with success. For the first six months of 1976 we are up by, I believe, 27 per cent

in advertising lineage over what we were in the comparable period of 1975. But, in all fairness, we must point out that we are publishing double the number of editions that we did in 1975. Yes, we are meeting with some success.

Senator Austin: Where is *Time* magazine's advertising revenue going, so far as your ability to see it?

Mr. Campbell: It must go down. It is a matter of whether it levels off at \$1 million, or \$2 million, or, what they are suggesting for this year, at the \$4 million level. There is only one way, in my opinion, that it can go. That is, down.

Senator Austin: My point is, are leading advertisers, former advertisers in *Time* magazine, simply stopping their advertising, so far as magazines are concerned, or are they going somewhere else, to other Canadian magazines or to other forms of media?

Mr. Hodgkinson: With your permission, senator, I am probably in a better position to answer that. I think you have to take a look at the first three or four months of this year and say the advertising was actually down in all media, of the magazine group. I think there were several reasons for that: the AIB regulations, the uncertainty as to whether C-58 was going through or not. So it is very hard to get a fix on it. As closely as I can determine, there are quite a few magazines that are benefiting from it. *Maclean's* is one that has benefited from some accounts using *Maclean's*. *Quest* magazine is one that is benefiting from getting some advertising. The calendar magazines are getting some additional advertising from losing *Time*. You can see it is starting to spread out to the whole industry of the magazine.

Where the demographics of the audiences reading the magazine is somewhat similar to the demographics of *Time*, is because they advertise very specific products in *Time* to reach a certain type of audience. The magazines I have mentioned have an audience which is quite similar to the demographics of the *Time* audience.

Senator Austin: You entered the biweekly market shortly after the introduction of Bill C-58; am I correct in that?

Mr. Campbell: That is correct; October 6, 1975.

Senator Austin: Would a serious loss be occasioned to *Maclean's* should this bill not pass the Senate and Parliament?

Mr. Campbell: Yes. I think not only a serious loss to *Maclean's*, because we could almost look upon it as a profit. If we are put in a position of folding, we will then eliminate our losses. So you can say that that is possible. We also have over 2,000 people working in our magazine—not just in magazine publishing, but in all of our publishing operations. That would be a terrible loss. Also I think it would be a loss for the country if these magazines were not available.

Senator Austin: Presumably you could retreat to the status quo ante? You could go back to being a features magazine.

Mr. Campbell: I do not think so. We have had our last try at that. You tend to go forward and forward —

Senator Austin: It is a news magazine or nothing; is that your position?

Mr. Campbell: Yes, I would agree.

Mr. Hodgkinson: Again, you have to look at your various public, which makes the magazine possible. We have taken the reader through that step now. To say "Okay, we are not now going to be a news magazine," would lose us a lot of readers. We would lose a lot of circulation. With the advertising community, we have gone to them and we have explained to them what we are doing. For us to go back, they would think we were crazy. There would be a great credibility gap between them and us, and the reader. We would lose a lot of position both ways.

Senator McElman: Could I just try to nail down this Canadian content? In broadcasting it is Canadian content.

The Chairman: Of the programming.

Senator McElman: Programming of Canadian content. That is licensed and regulated by Canadian law.

Mr. Campbell: That is correct.

Senator McElman: But in magazines, it does not refer to Canadian content at all.

Mr. Campbell: Quite correct.

Senator McElman: It is substantially different, in a field that is not licensed or regulated by Canadian law, similar to broadcasting.

Mr. Campbell: It is as different as apples and oranges.

Senator McElman: Would it not be possible, under the proposals of this act, or the act as it now stands, that complete publication could deal with matters, none of which were Canadian and none of which, indeed, were written by Canadians?

Mr. Campbell: Quite true.

Senator McElman: I think that nails it down. It could be 100 per cent non-Canadian, in effect. I do not suggest that you would ever do that, but it would be possible within this legislation.

Mr. Campbell: Yes, it would be.

The Chairman: It has just got to be different.

Senator Cook: What is the virtue in that?

Mr. Campbell: It eliminates the recycling or dumping of second-hand editorial material, which provides a tremendous advantage to someone who has access to that material.

Senator McElman: That leads me to my second question, dealing with dumping of materials. With your experience in the periodical publishing business, with the tremendous cost advantage that *Time* magazine has had over these many years, since 1965 at least, in bringing in low-cost or non-cost editorial material, could they by reduction of advertising rates have almost driven you out of business at will at any point up to the present time?

Mr. Campbell: Yes, they could have. My Irish fighting friend over here will say no way are they going to put him out of business. But from a practical point of view, had they gone out of their way to eliminate us, they could have eliminated us.

Mr. Hodgkinson: I would agree with that.

Senator McElman: You say your fighting friend would have stayed in. But I suggest you would have told your

fighting friend that there was a point where you would cut your losses.

Mr. Campbell: There must be a point you cannot go beyond.

Senator McElman: Since they did not attempt to do that, one must assume that they reaped tremendous cost or profit advantages that were not available to any other publication in Canada, except perhaps *Reader's Digest*. Would that be accurate?

Mr. Campbell: Yes, it would be.

Senator McIlraith: Mr. Campbell, a few moments ago you were asked a question about your activities in the broadcasting field. You listed the TV stations and radio stations. What about cablevision?

Mr. Campbell: So that it is clearly understood, we have three Canadian public companies. We have a Canadian cable public company of which 40 per cent is owned by the public; we have a broadcasting company headquartered in Calgary, called CFCN, of which 40 per cent is held by the Canadian public; and we have Maclean-Hunter Limited, which is the parent of these other two subsidiary public companies, and it too is held by the Canadian public. There are about 1,200 shareholders in each of those three companies.

Senator McIlraith: In addition to what you have mentioned in the broadcasting field, you have cable systems . . .

Mr. Campbell: We have cable systems in Ontario. We do indeed.

Senator McIlraith: How many?

Mr. Campbell: We have about 240,000 subscribers. The systems run from Thunder Bay, in the north, to Toronto, Sarnia and St. Catharines, in the South. They are all in Ontario. I might hasten to point out, of course, that what we do with cable is, we are carrying other signals, as you are so well aware. The only other programming that goes on is a local programming commitment to each of those communities.

Senator McIlraith: Do you own any broadcasting stations or any cable systems in the United States?

Mr. Campbell: We own no broadcasting in the United States. We have 75 per cent of the newly formed company in the cable business in the state of New Jersey.

Senator McIlraith: You have just the one cable?

Mr. Campbell: Yes.

The Chairman: Honourable senators, it looks as though we have now run the gamut, unless Mr. Campbell has something else he wishes to say.

Mr. Campbell: No, Mr. Chairman, except to again thank you for providing us with this opportunity of putting our views before the committee.

The Chairman: Do you have anything further to add, Mr. Hodgkinson?

Mr. Hodgkinson: No, Mr. Chairman.

The Chairman: We will adjourn until 2.30, at which time we will hear from the Canadian Periodical Publish-

ers' Association and the Graphic Arts Industries Association.

The committee resumed at 2.30 p.m.

The Chairman: Honourable senators, we have a quorum so we can start now with Mr. Stanley who is here on behalf of the Graphic Arts Industries.

Mr. Stanley, you are appearing here for Graphic Arts Industries?

Mr. James P. Stanley, Director, Graphic Arts Industries Association: That is correct, Mr. Chairman.

The Chairman: Do you have an opening statement?

Mr. Stanley: Yes, Mr. Chairman, if I may read it to you.

Mr. Chairman and honourable senators, I want to thank you very much for the opportunity of appearing here before you this afternoon, particularly in view of the fact no printers appeared before the Standing Committee on Broadcasting, Films and Assistance to the Arts of the other place as unfortunately that committee indicated they did not have the time to hear from the printing industry. Unfortunately Mr. Brian Linklater, General Manager of the Graphic Arts Industries Association, is attending an annual meeting of printers called for today in Toronto, so I am appearing by myself on behalf of the Graphic Arts Industries. I will state my case very briefly.

I am president of Ronald's-Federated Limited, a public company with 90 per cent of its shares owned in Canada and with no individual or corporation owning more than 30 per cent of its equity. We employ more than 2,000 persons in four provinces. Our company and its employees are vitally affected by the proposals contained in Bill C-58.

Since 1943 the entire Canada requirements for the printing of the *Reader's Digest* magazine, including *Sélection du Reader's Digest* introduced in 1947, have been produced in our Montreal plant. The printing of *Time Canada* commenced in 1962 in Montreal and subsequently the western provinces' requirements were printed in our Vancouver plant.

I will not go into the merits of these magazines as I am sure the case for the publications has been fully stated by others.

The importance of the printing of these magazines to our company cannot be understated. Twenty-seven per cent of the net revenue of our Montreal plant comes from the printing of the three magazines; a factory employing more than 800 persons.

Senator Walker: Excuse me a moment. What is your gross each year? I ask this so that we will have a general idea of the situation.

Mr. Stanley: Our gross is \$66 million. in the most recent fiscal year. This is for all our companies and not just the Montreal plant. In Vancouver, 5 per cent of the net revenue in 1974 resulted from the printing of *Time Canada*, an important figure but without the serious impact that the magazines have on our Montreal operations.

As a result of the action in the lower house, *Time Canada* has already ceased its publication and the printing of the magazine in Vancouver stopped in March. The U.S. edition

of the magazine is being printed in our Montreal plant, but circulation is expected to drop to 200,000 copies from the close to 600,000 copies printed for *Time Canada*.

Should *Reader's Digest* and *Sélection* lose their Canadian status under the current tax legislation they would probably be forced to follow the same procedure as *Time* and face a large drop in advertising revenue as well as circulation. It is entirely possible that all three publications will be forced to cancel their printing in Canada.

It is well known that Canadian printing costs are equal to or greater than those in the U.S.A. due to the generally smaller print runs and the near parity of printers' wages on both sides of the border.

If the U.S. editions of the magazine are distributed in Canada the temptation to add the print requirements to the U.S. runs will indeed be great as undoubtedly cost savings would result. As many as three hundred employees in our company alone could be affected should these magazines cease their Canadian printing. Certainly this would be detrimental to the Canadian printing industry as well as to the suppliers of paper, inks and other materials if this very large volume of printing were removed from Canada; to say nothing of the impact on the direct employment of Canadians by these publishers which I am told approximates 600 persons.

I suggest that the legislation be so amended as to encourage magazines to continue publishing in Canada with due regard to Canadian aspirations and that the legislation not only protect existing and new, uniquely Canadian publications, but also encourage foreign magazines now distributed widely in Canada to set up editorial facilities with appropriate Canadian participation, and to purchase their printing requirements in this country.

The Chairman: Any questions?

Senator Macnaughton: Why could you not be heard in front of the committee in the other house?

Mr. Stanley: Well, both Mr. Linklater and I wrote to the committee and we received a reply from the secretary of the committee stating that they did not have the time to see us, and there was some urgency about completing their hearings. Both I and Mr. Linklater, the General Manager of the Graphic Arts, did state our case in writing to the committee, but we were not called as witnesses.

Senator Macnaughton: And you have 2,000 employees in Montreal?

Mr. Stanley: No, in Canada.

Senator Macnaughton: How many in Montreal?

Mr. Stanley: Approximately 800.

Senator Macnaughton: And your gross was \$66 million in 1975?

Mr. Stanley: That is right.

Senator Macnaughton: And you figure about 25 per cent loss on that if these contracts are cancelled?

Mr. Stanley: No, it will be approximately 15 per cent in total and approximately 27 per cent of our Montreal gross, because the magazines are largely printed in Montreal.

Senator Macnaughton: But your operations go right across Canada?

Mr. Stanley: That is correct. We operate in Montreal and Toronto and we have three plants in Alberta and one in British Columbia.

Senator Macnaughton: How long have you been in business?

Mr. Stanley: Our first company started in 1880. We have added companies since that time.

Senator Molson: Is there something about a merger going on at the moment?

Mr. Stanley: Yes, sir, we have made a proposal to the major shareholders of Rolph-Clarkstone Limited to acquire their shares.

Senator Smith (Colchester): I notice that you are listed as speaking for the Graphic Arts Industries Association and yet I thought that what you said related only to printing. Did I misunderstand you?

Mr. Stanley: Possibly there is a misunderstanding, sir, but the Graphic Arts Industries Association, of which we are a member, did submit a brief to this committee, and I would be glad to read that to you if you should so wish.

Senator Smith (Colchester): I read it and wondered why your remarks were confined to printing.

Mr. Stanley: Well, the Graphic Arts Industries Association, sir, is an association of printers and not of publishers. Some publishers may belong to it because they have printing divisions, but it is an association of printers.

Senator Walker: What is it that makes it graphic? And what is it that makes it art if it is simply an association of printers?

Mr. Stanley: That is a good question. Graphic has been a name introduced probably in the last 15 or 20 years to describe the entire area of printing from art preparation through to the final printed material, so "graphics has come, in common usage, to be almost synonymous with "printing".

The Chairman: I see, at the end of the brief put in by the Graphic Arts Industries Association, it says this:

While Graphic Arts Industries Association agrees that the development of a healthy periodical press in Canada will obviously benefit the manufacturers of such publications, it does not agree that this should be done at the expense of Canadian companies already providing income and jobs in our industry.

That is the substance of your submission?

Mr. Stanley: That is right, Mr. Chairman.

The Chairman: Are there any other questions?

Senator McElman: In your comments and in the brief from the Graphic Arts Industries Association you refer to both *Time* and *Reader's Digest*. Are you aware that *Reader's Digest* has changed its operation to meet the requirements of the proposed legislation?

Mr. Stanley: I understand, senator, that they are endeavouring to meet the requirements of the proposed legislation. They still have the ownership position to overcome. They are, I believe, employing additional editorial staff so that all the articles can be completely rewritten in Canada and the selection completely made in Canada.

However, they have not yet managed to overcome the problem of Canadian distribution of the shares to achieve the 75 per cent Canadian ownership required under the legislation.

Senator McElman: In numbers of employees, what would you judge to be the effect within your industry of the finalization of the printing of *Time* in Canada?

Mr. Stanley: Of *Time* only, senator?

Senator McElman: Yes?

Mr. Stanley: Well, it depends on whether *Time* can and will continue to produce the *Time* international or the *Time* magazine in Canada, or eventually decide to produce it entirely in the U.S.A. If they continue to produce their estimated 200,000 copies, as opposed to the previous 600,000, I would estimate that the job requirements will be reduced in the printing area by approximately 25 people. There is a re-organization of the work force. As you recognize, *Time* is produced over the weekend, and a great deal of it was produced in overtime work. All the typesetting for the Canadian edition. That is to be completely eliminated. It involved a crew of approximately 10 men, who worked partly Saturday and partly Sunday on shared overtime.

Senator McElman: Well, on the other side of that coin you just indicated that *Reader's Digest* in consequence of this legislation, will be increasing their staff.

Mr. Stanley: They will be increasing their editorial staff, senator. To the best of my knowledge, they already employ approximately 500 people, and I believe they will be increasing their staff to some limited number, not a great number.

Senator McElman: But if they go into the production of more stories in Canada by Canadians, would this not have a beneficial effect for your industry?

Mr. Stanley: For the printing industry.

Senator McElman: Well, it is arts as well as printing, as I understand your presentation.

Mr. Stanley: That is right. My understanding of their intent is not to change materially the content of *Reader's Digest*. They already scour the Canadian market place for Canadian-written articles and already approximately 25 per cent of their magazine consists of cullings from Canadian writers. The whole magazine, as you know, is cullings from world-wide writing. They indicated to me that they did not think they would find any more Canadian stories worthy of condensation to maintain a digest magazine of the sort *Reader's Digest* is.

Senator McElman: We had testimony this morning before this committee that the net advertising revenue of *Time* has been of the order of \$8 million, which, on a reduced basis, is now suggested would be in the order of \$4 million plus, yet you have indicated that *Time* would probably drop that and move its printing of the U.S. edition to the United States.

The Chairman: I do not think the witness suggested that *Time* would drop the advertising; they might drop the printing operations in Canada.

Senator McElman: Well, excuse me, Mr. Chairman, I drew from what he said that the Canadian printing would move to the United States.

The Chairman: Yes.

Senator McElman: I am simply asking if that is only conjecture or if he has anything to back that up. And, corollary to that, would Canadian advertising, as now being published in the U.S. edition in Canada, follow to the U.S. publication, because it would have to then be paid at the rate of North American distribution rather than the Canadian rate which is now charged?

Mr. Stanley: It has to be speculation on my part, as you can understand, but prior to 1962 *Time* Canada was, in fact, printed in the United States with Canadian advertising in it. In 1962, in order to encourage increased circulation, *Time* moved its printing operation and its editorial offices to Montreal. This was successful, in that the circulation did increase quite dramatically at that time. The printing, we understand, we an added cost coming to Canada as opposed to printing the Canadian edition in the U.S., where a great many of the preparatory processes were identical for the Canadian edition and the U.S. edition. It was printed in a plant in Chicago which produced both the American and Canadian editions. *Time* did have added production costs in coming to Canada, which were offse by their increased circulation and, presumably, by their ability to increase their advertising rates because of the increased circulation. Now with the circulation coming back down to 200,000 as estimated, this advantage is no longer present.

Senator Beaubien: Coming down to 200,000 from what?

Mr. Stanley: A guaranteed circulation of 600,000 to a guaranteed circulation of 200,000.

Senator Beaubien: That is a tremendous change.

Mr. Stanley: With the over-runs over the guarantee it could be anywhere from 600,000 down to 200,000.

Senator McElman: So you do not have any solid information that *Time* would cease its printing in Canada?

Mr. Stanley: I have not, sir.

Senator Walker: Can you see any other effects on the Canadian public by way of employment and loss of earnings resulting from this debacle?

Mr. Stanley: Yes, sir, in that the papers that we use for the printing of the magazine are substantially Canadian papers; the inks we use are manufactured in Canada. There is the transportation and the various associated operations that go along with magazine production, all of which would suffer with the elimination or reduction of the work.

Senator Cook: When the magazine is distributed, if it is distributed from the U.S.A., what happens? Do they put it in the United States post office, and pay the charges, and subsequently it is delivered to the address in Canada?

Mr. Stanley: It can be done either way, senator. In some instances the U.S. magazines distributed in Canada are brought across the border in bulk and put into the Canadian postal stream in neighbouring Canadian cities.

Senator Cook: Stop there, please. Why would that be done? What is the advantage of doing it in that manner?

Mr. Stanley: At one time there was a slight postal rate advantage and the Canadian Post Office, I believe, encouraged this procedure in order to obtain the postal

revenue, because the Post Office has to distribute the magazines whether they are mailed in the U.S.A. or in Canada.

Senator Cook: What happen now? You said that at on time there was an advantage. Is that advantage still available?

Mr. Stanley: I really cannot answer that definitely, senator. It is apparently marginal as to the advantage.

Senator Cook: Am I correct in assuming, to take a figure, that in any month to distribute the magazine to the Canadian subscriber would cost, say, \$100,000. If the magazines are posted in the U.S.A., that \$100,000 goes to the U.S. post office. But the Canadian post office has done just as much work as if the magazine had been posted in Canada. Is that correct?

Mr. Stanley: That is correct, yes.

Senator Cook: Therefore, in this case, if it goes back to the States and is handled from there, there would be a considerable loss of revenue to the Canadian Post Office?

Mr. Stanley: That is correct, if it was not trucked across the border; and I would have no idea whether or not they would do that.

Senator Austin: I would like to ask the witness whether his company has been approached by any other actual or potential periodical publishers for its services?

Mr. Stanley: In what time frame, senator, if I may ask?

Senator Austin: Within the next year. Has the possibility for publishing any new Canadian periodicals been presented to you?

Mr. Stanley: Not new, but we have printed for Maclean-Hunter for the past six or seven months. That is the French language magazine, which is new to us, or it has been new since, I believe, last September or October.

Senator Austin: Will you be publishing the merged magazine *Actualité*?

Mr. Stanley: We do not know. The printer of *Actualité* is located in Drummondville, and no decision has been reached by the publisher as to who the ongoing printer will be.

Senator Austin: Some of the senators, in questioning you, have been drawing from you the kind of losses which the removal of the volume of *Time* publication, which you previously enjoyed, would cost you. The bill has as one of its purposes the encouragement of other publications. There is a natural transition period. I wonder whether you feel that the bill is likely to be successful in encouraging new publications and, therefore, new business for the printing industry in Canada.

Mr. Stanley: We do not really believe so. There have been a number of Canadian magazines of the control circulation variety introduced in the last four or five years. To name two: *Homemaker's* and *Quest*. They are both successful publications, published by Comac Publishers, and both of them were introduced before Bill C-58 was, as far as I know, even considered.

Senator Austin: What is your view about the principle of the bill? Would you like to see the encouragement of Canadian-owned periodicals?

Mr. Stanley: I would like to see the encouragement, yes, senator. I do not believe that Bill C-58 will serve this purpose.

Senator Austin: Why is that?

Mr. Stanley: Because, in my opinion, magazine advertising is a medium for getting the advertiser's message across, and I feel that *Time* and *Reader's Digest* strengthen the medium. If the medium is weakened, I feel that the advertisers will look to other sources of advertising, such as the daily newspapers and television, and other means of getting their message across if the medium is not strong. I think that Bill C-58 weakens the medium rather than strengthens it.

Senator Austin: Weakens the particular section of communication which is the magazine and periodical section?

Mr. Stanley: That is my opinion, senator.

Senator Austin: So to say the obvious, your view would also be that the advertising which hitherto *Time* magazine had enjoyed will not stay in the magazine and periodical area?

Mr. Stanley: That is my belief, that the medium is weakened by this restriction and they money will go to other areas where the advertising dollar might work better for the advertiser.

Senator Walker: That is the way it was before *Time* and *Reader's Digest* came into the picture, was it not?

Mr. Stanley: I believe that with the strengthening of *Time* and *Reader's Digest* the whole industry improved.

Senator Walker: Tremendously.

Mr. Stanley: Yes.

Senator Beaubien: In the first four months of this year, would you say that *Time's* circulation in Canada has gone down with the changeover to the new magazine?

Mr. Stanley: Yes, it has gone down.

Senator Beaubien: Have you any figures on it?

Mr. Stanley: Unfortunately I do not. The reduction since *Time* Canada stopped is in the neighbourhood of 100,000 copies weekly.

Senator Beaubien: A week?

Mr. Stanley: Yes, a reduction.

Senator Beaubien: One hundred thousand a week?

Mr. Stanley: That is correct.

Senator Beaubien: That is a fantastic figure.

Mr. Stanley: It is a dramatic decrease in circulation—for this reason, of course, that we have already stopped the printing in Vancouver.

The Chairman: Are there any further questions?—Thank you very much, Mr. Stanley.

We now have the Canadian Periodical Publishers' Association, represented by Mr. Denis Smith and Miss Sheryl Taylor-Munro. Do you have an opening statement, Mr. Smith?

Mr. Denis Smith, President, Canadian Periodical Publishers' Association: Yes.

The Chairman: Please go ahead and tell the committee who you are and what the association is and represents.

Mr. Smith: The Canadian Periodical Publishers' Association and the Book and Periodical Development Council requested an opportunity to appear before your committee to add our support for Bill C-58 and its intention to remove exemptions granted in 1965 to several foreign publications under section 19 of the Income Tax Act; and we are very grateful to you for the chance to appear before the committee.

Senator Walker: Mr. Chairman, may I ask just one question?

The Chairman: Yes.

Senator Walker: Mr. Smith, where did you stand on this in 1971?

Mr. Smith: We did not exist. We were created in 1973.

Senator Walker: By the people that are now in favour of Bill C-58—correct?

Mr. Smith: Yes.

Senator Walker: So you are really just another appendage for the proponents of the bill—created by the very people Maclean-Hunter and the *Star* newspapers, and so on?

Mr. Smith: No Maclean-Hunter magazines are not members of the association. None of them is.

Senator Walker: They just created you separately?

Mr. Smith: The CPPA was founded, as I said, three years ago with 10 member magazines. We now have 130 members with a total paid circulation per issue of over three million. Sixty percent of our member magazines have circulations of under 5,000 copies per issue. But we also include a substantial number of magazines with circulations in the range of 10,000 to 50,000—like my own magazine, the *Canadian Forum*—as well as several large circulation magazines like *Saturday Night*, *Toronto Life*, *Quest* and *Homemaker's* also. As I mentioned, there are no Maclean-Hunter member magazines in the association.

Of that membership, about three-quarters are located in Ontario, 20 in British Columbia, 10 in the Prairies, and 10 in Quebec and the Atlantic provinces. We have 18 French language or bilingual members, and that number includes magazines which publish in Cree, Polish and Ukrainian as well as English and French. The advertising revenue of members for 1974, not including *Quest* and *Homemaker's*, which were not members of the association in 1974, was about \$2 million in total for the year.

When we speak about the potential diversion of advertising from the Canadian edition of *Time* to Canadian magazines that are members of our association, we may well be talking about a potential increase in advertising revenues available to be attracted to member magazines which could amount to 100 per cent or 200 per cent of existing advertising revenues in those magazines.

Senator Walker: How do you know that?

Mr. Smith: A number of estimates have been made, including estimates by *Reader's Digest*, which suggest that

something in the area of 20 per cent of the advertising revenues of the two magazines would likely be diverted to Canadian magazines. If we took the 20 per cent figure and applied it to *Time Canada*, that would be something in the order of \$1.5 to \$2 million.

The Chairman: You have quite a number of members with a circulation of about 5,000 an issue.

Mr. Smith: Yes, or under.

The Chairman: Do you feel they are likely to attract advertisers who, up to the present time, have been advertising in *Time*?

Mr. Smith: No. I think most of our members expect no benefit, or very little benefit, from this legislation. Perhaps 20 to 25 members expect some benefit, and most of those have very small amounts in advertising revenues presently, so that even a small diversion to them would be of benefit.

The Chairman: If present revenues are \$1,000, 100 per cent would not be very much of an increase.

Mr. Smith: I agree. I was quoting an estimate that *Reader's Digest* had made in relation to potential diversion of up to 20 per cent in existing revenues for those two magazines, and obviously a substantial part of that would go to Maclean-Hunter magazines. I think those of our members who are likely to benefit most are *Saturday Night* and *Toronto Life*. Both publications compete directly with *Time*. *Quest* and *Homemaker's* would also benefit, and perhaps 12 to 20 smaller publications could expect some small benefit by way of diversion.

Senator Cook: The second publication on your list has a circulation of between 5,000 and 25,000, does it?

Mr. Smith: Yes.

Senator Cook: So there are only five members of your association with a circulation of over 100,000?

Mr. Smith: Right.

The Chairman: What would be the circulation of *Saturday Night*?

Mr. Smith: Its circulation now, I believe, is 90,000.

The Chairman: That is, 90,000 an issue?

Mr. Smith: Yes.

The Chairman: And it is published monthly?

Miss Sheryl Taylor-Munro, Executive Co-Ordinator, Canadian Periodical Publishers' Association: It is published 10 times a year, Mr. Chairman.

The Chairman: What would be the circulation of *Toronto Life*?

Mr. Smith: *Toronto Life* is a monthly publication and has a circulation of 50,000 an issue.

Senator Walker: I have before me a consumers' magazine, which gives the circulation of *Toronto Life* as 38,000 a month. Has it changed in the last few months?

Miss Taylor-Munro: That may only include subscriber circulation.

Senator Walker: It gives its circulation as 38,000 and states that it is free.

Miss Taylor-Munro: No, that is *Toronto Calendar*. *Toronto Life* is a paid circulation magazine.

Senator Walker: Well, I produce this to you. It is at the bottom. It is not *Toronto Calendar*.

What are we talking about, Mr. Chairman? Whether it is 100 per cent or 1,000 per cent, it does not make much difference in the whole picture.

The Chairman: No.

Mr. Smith: Mr. Chairman, I think what we are talking about, at the minimum, assuming that the magazine members of our association seek this revenue, is something in the order of \$1.5 to \$2 million a year in additional revenues for those magazines. As I said earlier, compared to the total advertising revenues for these magazines in 1974, that represents an 80 to 100 per cent increase in total advertising revenues.

Senator Walker: What are your gross advertising revenues a year?

Mr. Smith: Gross advertising revenues were \$2 million in 1974. That does not include *Quest* and *Homemaker's*, which are controlled circulation magazines.

Miss Taylor-Munro: Both *Quest* and *Homemaker's* joined in January of this year. We will not have the 1976 figures until the end of the year.

Mr. Smith: My point is that a relatively small proportion of the money diverted to member magazines of our association would transform the financial position of 20 to 30 members of the association.

Senator Smith (Colchester): Do you feel there is anything in the argument that if advertisers in *Time* now were to take their advertising to another magazine, they would tend to seek out a comparable publication in terms of leadership, type and circulation?

Mr. Smith: Yes. If you consider a number of our magazines together, we do cover, essentially, the same market. However, no single member magazine would cover that market.

The Chairman: Of course, the advertiser looks at the market covered and at the volume.

Mr. Smith: Yes.

The Chairman: A great many of your member magazines would not be attractive on that basis.

Miss Taylor-Munro: Perhaps not singularly, but in combination with others. We are not saying that any one or two magazines are going to take the total \$2 million that might be diverted from *Time*. The point is that for some magazines, a \$30,000 or \$50,000 increase in advertising revenues could make the difference between operating profitably and unprofitably.

My understanding of the purpose of the bill was that it was not only to assist the big magazines, but also the small and medium-sized Canadian magazines. The point we would like to make is that we do not need millions of dollars to make that change possible; that a few thousands of dollars or tens of thousands of dollars could make the difference for a good many of those magazines.

The Chairman: But we are talking about those advertisers who presently advertise in *Time*. If you look at *Time*, many of those are large advertisers, and the question is whether those advertisers who are seeking to place their advertising somewhere else would go to a group of small publications, or whether they would select some other larger publication.

Miss Taylor-Munro: Mr. Chairman, I think it would be some of both. To give one specific example I was recently made aware of, one of our member publications is *Performing Arts in Canada*, which has a circulation of about 35,000. Those who tend to read it are at a fairly high income level. Previously, the publisher had attempted to sell the notion of advertising in his publication to the American Express credit card company, but without success. However, since the introduction of Bill C-58, American Express has been looking around for other publications in which to advertise, and is now prepared to advertise in his publication. One of the reasons given by American Express was that there was now a push, if you like, to look elsewhere. It is not going to advertise solely in his publication as a substitute, but in addition to other advertising expenditures.

Senator Austin: Miss Taylor-Munro, I think you heard me ask Mr. Stanley for his opinion on the question of whether advertising now being placed with *Time* magazine would go to Canadian periodicals, and his view was that the absence of *Time* magazine's Canadian edition would affect the whole of the magazine industry, periodical industry, in a negative way. If I understood him correctly, he said *Time* magazine was a leader that attracted advertisers into the whole periodical field. I wonder if I could get your comments on that part of his evidence, on Mr. Smith's, or both of you together.

Miss Taylor-Munro: I think one of the reasons for the continued advertising in *Time*, at least partly, and in other media, is that advertising is habitual. An advertiser gets used to advertising in one place and the advertisers know what they are buying. If an agency suddenly says "The advertising money should be spread around this month," it runs into some questions from the advertisers. So I think it is partly habitual. But I think our experience has certainly been in the short time since the beginning of the year, provided that the bill passes and becomes law, that advertisers are in fact seeking other places among our member publications to advertise. I certainly have the impression that that has been the case. We will not know definitely for several months or until we have made an industry-wide assessment of it, but I would not support the previous speaker's position that in fact none of it will go to Canadian magazines and that none of it will go to our kind of magazine. I think certainly some of it will go to the very large magazines, but I feel also that some of it will certainly go to the smaller ones as well.

Mr. Smith: My impression is the same, senator. *Saturday Night* has already benefited substantially from the expectation that this bill will become law. *Toronto Life* and *Performing Arts in Canada* have also substantially benefited. And I know from my own experience that smaller magazines like *Forum* have also benefited.

The Chairman: When you say that they have benefited, do you mean that their advertising income has increased?

Mr. Smith: The atmosphere which has partly resulted from the discussion of the bill has changed very substantially in the past few years. Their advertising revenues

have increased. In the case of the magazine I am associated with, I know that advertising agencies are interested in talking to us now with a circulation of 13,000 while two years ago they simply were not interested in talking to us.

Senator Austin: Do you have the impression that they are now successful in attracting advertising that formerly went to *Time* magazine?

Mr. Smith: I don't know.

Senator Austin: One of the comments that comes to my mind about *Time* magazine is that it may well have—and this is to put it into somebody else's words—been too successful. If it had been less successful there might still be room for *Time* magazine and for your publication as well.

Miss Taylor-Munro: I think one of the things we have to look at is how long they have been in this country. It is obvious that the condition that we now find the industry in is something that has developed over a number of decades. I think they have been very successful, but I think that that success has been mitigated by the fact that they do have a special, privileged position, and not simply in their relationship with our magazines and their ability to get editorial material very cheaply, but they obviously enjoy benefits vis-à-vis their foreign competitors because they can spread their costs around to an edition in Canada and sell advertising here, a position which is denied publications like *Newsweek*.

Senator Austin: The main thrust of the arguments that we have been listening to—and I should like to hear your comments on this—is that it did not take much enhancement of the revenues of your members actually to put them on their feet. *Time* magazine was making something in excess of \$4 million, and if this were spread around your members they would be given a much healthier condition without seriously detracting from *Time* magazine's rate of return on investment. Is that a position you would agree with?

Miss Taylor-Munro: I think that certainly we feel that the benefits to be gained far outweigh any detrimental effects of the bill. The sort of thing that the previous speaker mentioned about the possible loss of jobs because of *Time*'s reduction in its circulation, certainly our impression is that the jobs that would be lost through that would be picked up by the expansion in the Canadian industry.

Senator Austin: My question is this; Did we have to amend the Income Tax Act, in the manner of Bill C-58, in order to be of rational assistance to your members?

Mr. Smith: That is a very difficult question to answer. I think that without it there would not have been the possibility for new magazines to come into existence that there now is as a result of this legislation. I know of half a dozen magazines that are in prospect, and that are the direct result of this legislation, besides the increases in advertising revenues to a number of our members which seem to be related to this legislation. As long as *Time* and *Reader's Digest* attracted the large proportion of the total advertising revenue available, it was very difficult to foresee an expansion among smaller and middle-range Canadian magazines.

Senator Austin: There are a number of interests at stake here. From the advertisers' point of view it is my understanding that they want the medium of broadest circula-

tion possible in order to get the maximum number of consumers of their particular products. Now *Time* magazine has withdrawn from that particular service. Do you see a replacement of that in the form of one or two Canadian periodicals, or is it more likely to be 130 to occupy the field?

Mr. Smith: It is not 130, and it is not one or two either. It is somewhere in between—between half a dozen or ten magazines which, taken together, would more than make up for that access to the market. Some of those now exist and some do not yet exist.

Senator Austin: Do you think that new periodicals will come into the field?

Mr. Smith: Yes, both local and regional magazines and national magazines.

Miss Taylor-Munro: I think one of the problems has always been that because of the unfavourable climate for publishers in this country, anyone looking to invest dollars and who wanted to make a profit on his investment has generally not turned to magazines, because anyone looking at the situation would see that *Time* and *Reader's Digest* between them had such an unequal position that anyone coming in would be quite foolish to try to invest money and start up a magazine in competition. I was somewhat interested by the comments when Mr. Campbell was speaking this morning about the relative profitability of his broadcasting activities compared with the magazine side. I think that is a very important point. If you were looking to invest money in this country prior to the introduction of this bill, publishing magazines, particularly national magazines, was not a way to make a lot of money.

Senator Austin: What disturbed me was the comment you made with respect to the ability to influence the financial standing and security of your members by a relatively small enhancement of the advertising budget. Mr. Smith, in the house committee, made what I considered to be a rather eloquent defence of the philosophy involved. I am all for concepts, but it is for witnesses arguing for the bill to demonstrate to this committee that there is a need for this legislation in order to proceed to found and enhance the Canadian periodical publishing industry. You came close to saying that there was not much change required for the benefit of your membership.

Mr. Smith: I think that is true, but one of the changes that seems to me to be required is this kind of diversion of advertising revenue from *Time* or *Reader's Digest*.

Senator Austin: You think that *Time*'s fate was necessary to help the Canadian magazine industry?

Mr. Smith: At this stage I would say it is. I think *Saturday Night* representatives may be appearing before the committee, and I know you will hear their evidence directly. I know that their view last fall was that without this legislation *Saturday Night* would have ceased to exist, and they were talking about a relatively small amount of one-quarter of a million dollars a year to make the difference.

Senator McElman: Mr. Chairman, the 1965 legislation, as is fairly well known now in the industry, protected the Canadian business press, which at that time was a very weak and staggering industry in Canada. It protected it from the incursion of further elements of the business

press from the United States who were then poised or had in fact started their programming for publication in Canada. Would the witness think that the beneficial effects, which were proven in that instance, would move over into this new field which will affect not only news magazines, but the ones that he represents?

Mr. Smith: I would think certainly that that is a parallel; the legislation was effective on the side of business publications 10 years ago, yes.

Senator McElman: In that sense, do you believe that it would be beneficial not only from the profit standpoint, which you have mentioned already, as has the other witness, but also to the survival aspects of these 130-odd in a field in which there has been a very high mortality rate in the last few years in Canada?

Mr. Smith: Yes, I would think certainly that without the legislation a number of our members would cease to exist.

The Chairman: Do you mean without the 1965 legislation?

Mr. Smith: No; without the present legislation contained in this bill. I suppose approximately half of our members will go on existing, whatever happens, because they exist below the level of the economy, with totally amateur operations. I am referring, however, to the other half of our members, who, it seems to me, do depend on this legislation and other measures, some of which are still to be implemented.

Senator McElman: Do you feel that with the increased profitability which some Canadian periodicals have experienced in recent years and in recent months quality improves with profitability?

Mr. Smith: Undoubtedly, yes.

Senator Walker: How long have you been in the publishing business?

Mr. Smith: I have been editor of the *Canadian Forum* for a year; I have been on the editorial board since 1960. The *Forum* is in its 56th year.

Senator Walker: I know that, but you have had one year?

Mr. Smith: No, I have been on the editorial board since 1960.

Senator Walker: I am not referring to that. You have been active for one year?

Mr. Smith: I was joint managing editor from 1962 to 1964. I have been active on the editorial board for 15 years.

Senator Walker: Would you agree that what you are projecting now consists mostly of estimates of what you hope will happen, without being based really on facts?

Mr. Smith: The \$2 million?

Senator Walker: That is wishful thinking.

Mr. Smith: Yes, but it was an estimate offered by *Reader's Digest* as a result of its surveys. The information with respect to the position of *Saturday Night*, *Toronto Life*, *Performing Arts in Canada*, and my own magazine are not estimates; they are based on our experience of the past year.

Senator Walker: I hope you will benefit by it; the *Forum* is a good magazine.

Mr. Smith: Yes, we have done so already, I am sure; our advertising revenue has increased by two-thirds in the past year.

The Chairman: But you have not reckoned on the possible resurgence of *Time* in the advertising field?

Mr. Smith: No, we have not.

Senator Smith (Colchester): I have a question or two with respect to the revenue. You have been referring to \$2 million, or \$20 million, as the case may be. I presume that when we speak in those terms we are referring to gross revenues, gross expenditures by the advertisers?

Mr. Smith: Yes.

Senator Smith (Colchester): Is there some rule of thumb accepted by your membership as to how much of that will really be profit to them?

Miss Taylor-Munro: Of course, you must also make the deduction for the advertising agencies' automatic 15 per cent commission, which does not reach the publications themselves. I certainly would accept the figures put forward this morning, as far as the \$8.5 million for *Time* is concerned, as an accurate net figure. We do not on a regular basis, or a monthly basis as does the Magazine Advertising Association or the Magazine Association of Canada, compile figures for all our publications. We usually do it on a yearly basis, so what we are discussing here are figures based on the time prior to the proposed date of implementation of this legislation. We would not be able to give anything other than estimates at this point, until the end of this year.

Senator Smith (Colchester): Thank you, but I would like to pursue it a little further, if I may. Let us take your figure of \$2 million gross expenditure. You say 15 per cent is deducted from that, to begin with. How much of the remainder of that \$1.7 million is really a net gain or profitability to the magazines themselves?

Mr. Smith: I would think that virtually all of that, if it is actually placed in other magazines, is net gain.

Senator Smith (Colchester): Except for the paper, I suppose, and the cost of printing.

The Chairman: Senator Smith, are they referring to gross or net figures?

Senator Smith (Colchester): That is what I am trying to find out.

The Chairman: If it is gross figures, you must deduct all the direct expenses, the income taxes, et cetera, to get down to a net amount.

Senator Smith (Colchester): Yes.

Mr. Smith: We are already incurring the overhead operating expenses and receiving the advertising revenue in the case of most of our magazines that are going to benefit by this.

The Chairman: Their costs will increase if the business increases.

Mr. Smith: Their costs will to some extent, but not proportionately.

The Chairman: I have not found any way of reducing taxes. Have you?

Mr. Smith: No.

Senator Smith (Colchester): How many of your magazines have more than a local circulation, either city or provincial?

Mr. Smith: The magazines on the first page of the list, under 5,000 circulation, mostly have national circulation, although it is very small. A few local magazines; perhaps half a dozen of those. In the 5,000 to 25,000 range, I believe all are national magazines. In the 25,000 to 100,000 range, *Key to Toronto* is a local magazine, *Toronto Life* is a local magazine; otherwise they are national circulation magazines. Over 100,000 circulation are all national circulation magazines.

Senator Molson: What is the total estimated circulation of that list?

Mr. Smith: It is approximately 3 million paid circulation. However, in addition, we now have as members *Quest* and *Homemaker's*, which together have another 2 million circulation, which is controlled circulation.

Senator Molson: Per annum?

Mr. Smith: No, we are referring to per issue circulation.

Senator Molson: When we try to make a comparison with *Time*, we have a weekly circulation against these figures.

Mr. Smith: Yes.

Senator Molson: I am trying to relate what volume of circulation there is.

Mr. Smith: I cannot give you a direct comparison, except that our total per issue circulation of paid circulation magazines is approximately 3 million.

Senator Molson: Nearly all of them being monthly?

Mr. Smith: No, they vary.

Senator Molson: Are they quarterlies?

Mr. Smith: Some are quarterly and some bi-monthly. There are two charts on pages 2 and 3 of the brief which show figures which are Audit Bureau of Circulation figures, and do not include most members of our association. These are comparisons between *Time* and *Reader's Digest* and Canadian Audit Bureau of Circulation magazines in 1959 and 1974. On the index, Canadian ABC magazines have fallen in circulation, whereas *Time* and *Digest* have increased in that period.

Miss Taylor-Munro: We did break them down there on a per issue and per annum basis to make sure that distinction was made.

Mr. Smith: Yes.

The Chairman: What is the significance of talking about a national circulation in terms of advertising where the issue is 25,000—looking at it from an advertising point of view?

Mr. Smith: In comparison with *Time's* circulation?

The Chairman: Yes. Twenty-five thousand would spread pretty thin, would it not?

Mr. Smith: Yes, it does, and advertisers and agencies are interested in volume, and below a certain minimum they are mostly not interested at all. So there is a great challenge placed on most of our members to first raise their circulation above that minimum in order to attract any of this advertising at all.

Miss Taylor-Munro: One of the other points is that it also depends on the composition of who reads the magazines. In some cases advertisers are interested in broad coverage. All they are looking for is large numbers of people. In other cases they are looking for a selected group of people, of certain incomes and certain age groups, and therefore they want to zero in and specialize perhaps on a limited number of what they consider in their terms to be a quality readership. This is where a lot of the smaller specialized magazines can very successfully compete. This is why, for example, you could have a magazine like *Toronto Life*, with a small number circulation, still compete very successfully with a Toronto regional edition of a national magazine—because they have a good profile so far as who reads the magazine, and advertisers are looking for that.

Mr. Smith: The benefits are cumulative also. Most of our member magazines have been unable until very recently to do the survey research that is necessary, which is required by the agencies, in order to demonstrate the circulation figures. With recent increases in circulation, a number of our magazines jointly are now undertaking that survey research, which would enable them to go to advertisers and demonstrate the same kind of profile of readers that *Time* and *Reader's Digest* have given them for a long time.

The Chairman: I still come back to the question that I asked a little while ago. If you have only 25,000 circulation, the question is, what is the value to an advertiser? The value to him is the market that he can reach.

Mr. Smith: Yes. So that if we have the information about our readership and the advertiser is interested in reaching the kind of reader that a particular magazine has, then the case can be made that even though it may have only 25,000 circulation, it is a reasonable medium.

The Chairman: That would be less likely to be so in a national way than reaching a regional market.

Mr. Taylor-Munro: For example, we have magazines such as *Better Boating* or *Outdoor Canada*, which have circulations of 30,000 and 40,000 respectively. That zeroes in on a particular group of people. If you are advertising boats and outdoor activities, the selling of campers and trailers, while the total number of people reading those is not large, the value for your dollar in reaching those people is much higher than perhaps reaching 100,000 people, of which only 5,000 people own motorboats. So it works both ways. You can spend a lot of money reaching a large group of people but scattering your efforts, or you can concentrate on a very specific market.

The Chairman: Once you talk about concentration, you are more likely to be talking about regional than about national.

Mr. Smith: Or a specialized interest.

The Chairman: Yes.

Senator Molson: Would not the *New Yorker* or, say, *Gourmet*, be typical of selecting a certain class of readership and aiming the Rolls Royces and caviar at them?

Miss Taylor-Munro: Yes. You find this, in fact. An interesting phenomenon was mentioned this morning, the number of large mass magazines which have folded in the States; that their numbers, in fact, did not save them; that the magazines that seem to be thriving in the States are ones that have selected a very specialized interest. They do it very well and they concentrate. *Psychology Today* is one of the finest examples of a magazine which has taken what might seem a very limited subject matter and has made an enormously profitable venture out of it.

Senator Cook: A magazine for young children would not accept Johnny Walker advertisements?

Miss Taylor-Munro: They do not accept any advertising at all.

The Chairman: I was addressing myself in this way, because you seemed to stress the national character of these magazines. I think that concentration is really a denial of national coverage.

Mr. Smith: Not necessarily, because it may be selection of a market which is still national but is limited in numbers, such as children's magazines, film magazines, political and economic commentaries, boating magazines, auto magazines. All of these groups have a number of members.

The Chairman: But when you get to 25,000 initially and you talk nationally, and you talk about a concentration, it seems to me that there are a lot of contradictions there.

Miss Taylor-Munro: I think Senator McElman was mentioning business magazines. You could have a similar situation there, where you have an advertiser who is interested in reaching a specialized market, whether it be doctors, engineers, or whatever. He might be able to reach that same market, that same number of people, through advertising in *Time*. But he would be paying for a whole lot of people that he would not necessarily be interested in reaching as an advertiser. So he selects a magazine that perhaps has only 5,000 circulation and pays to advertise in that particular publication because he is interested in that particular group of people. So while you do not have necessarily the national numbers, it is a magazine which reaches people all across the country but in a specialized area.

The Chairman: Anyway, we are not going to settle this by arguing pros and cons hypothetically, that you might do this or that.

Senator McElman: Perhaps if the witnesses took this question from the standpoint of how an advertising agency arranges such things, rather than an advertiser, the whole picture would become much more clear.

The Chairman: I took it that when she talked about advertisers she meant the agencies rather than the actual people whose ads are published. Is that what you were talking about?

Miss Taylor-Munro: Yes. I was perhaps mistakenly using that interchangeably.

Mr. Smith: If I could use one example, the CPPA at the moment is about to undertake, on behalf of 20 member magazines—these are generally the largest circulation magazines in the group—a readership survey jointly for this group of magazines. That readership survey will provide us with a brochure for advertisers containing similar information on the demography of the readers of this

group, in the same form as the print measurement bureau provides information to advertising agencies on behalf of large circulation magazines. Our magazines are unable to undertake this kind of survey individually because it is much too expensive. As a group, we can do it. As a group we can present the results to agencies; and probably one of the results of that will be that group advertising rates will be offered for half a dozen magazines of our membership, for example, that cover a certain audience which we can define. This is being done for the first time this year by our association. The fact that we are doing it owes a great deal to the atmosphere that has been created by the discussion of this bill, and the expectation that advertising agencies have is that they will be placing more advertising in Canadian magazines.

Senator Austin: Can you tell me whether you have a Canadian content rule with respect to the membership of your association?

Miss Taylor-Munro: Not a content rule. We require that the magazines be Canadian-owned and controlled, and comply with the standards set out within the Income Tax Act. For example, the Post Office has set down certain requirements in order to qualify as a Canadian publication. We have a great number of publications which draw on material from outside of Canada, but it is material which is originated for their magazines, not material that they reprint from similar journals.

Senator Austin: You would define "control" as 75 per cent Canadian-owned?

Miss Taylor-Munro: Yes, we have used that as a yardstick.

Senator Austin: And so far as "substantially the same" is concerned, do you have any views on the question of 80 per cent being "not substantially the same," which is one of the key issues that this bill raises?

Mr. Smith: We have a very complicated view, I think. We have felt uneasy about the kind of definition that has been used because of the range of discretion which appears to lie with the Department of National Revenue under the phrase "not substantially the same." We have been puzzled, as others have, about what alternative kinds of definitions we could have which would block the same potential gaps in the legislation, and we have come back to the feeling that something like that definition is necessary. We were concerned, as Maclean-Hunter were concerned last fall when it appeared that the definition might be weakening, that if it were reduced to a 60 per cent "substantially different" definition, this would not benefit our member magazines, for the reasons that both Mr. Campbell and Mr. Hodgkinson mentioned this morning.

The Chairman: For the reason that *Time* might qualify under that definition.

Mr. Smith: For the reason that *Time* would continue to import editorial content at a small fraction of its real cost and would maintain its unfair competitive position as against what our members can do.

Senator Molson: I am afraid it was put a little stronger than that. I think Mr. Campbell and Mr. Hodgkinson said that if it were 50 per cent or 60 per cent, they might as well pack up. Am I not right?

Mr. Smith: Or themselves sign an arrangement with a foreign magazine.

Senator Molson: Yes.

Senator Austin: Is the Southam organization represented in your membership?

Mr. Smith: No.

Senator Austin: What about the Thomson group?

Mr. Smith: No.

The Chairman: Do honourable senators feel we have run the gamut on this question; that we have extracted all the information that we can possibly get?

Senator Austin: Perhaps Mr. Smith has a brief he wanted to present, Mr. Chairman. Senator Walker started questioning him very early.

Mr. Smith: There is more in the brief, which was distributed to members of the committee, but I think we have covered most of the points.

Senator Walker: We have all read the brief.

Senator Austin: Mr. Chairman, have we made any arrangement with Mr. Faulkner for his next appearance before the committee?

The Chairman: Yes, we have tentatively fixed next Thursday at 9.30 a.m., without time limitation. When I was offered a time limitation of an hour, I said we do not operate by the clock, so he understands he is here for as long as we want him.

On behalf of the committee, I want to thank Mr. Smith and Miss Taylor-Munro.

The committee adjourned.

Ottawa, Thursday, May 13, 1976

The Committee met this day at 9:30 a.m. to resume its consideration of Bill C-58.

Senator Salter A. Hayden (*Chairman*) in the chair.

The Chairman: Honourable senators, this morning we have the representatives from *Time*: Mr. Stephen LaRue, who is the President of Time Canada Limited; Mr. Douglas Andison, who is Counsel; Mr. Hugh Findlay, who is the Advertising Director.

I believe, Mr. LaRue, you have an opening statement to make. The field is yours at the moment.

Mr. Stephen S. LaRue, President, Time Canada Limited: Mr. Chairman, honourable senators, I would also, if I may, like to recognize another of my remaining colleagues, who is John Scott at the press table. He is Ottawa correspondent for *Time*, the weekly news magazine, having served, we believe with distinction, as editor of *Time* Canada some years ago.

I would like to read from the opening of our brief, if I may for a few moments. Then, of course, we will entertain any and all questions that you may have.

We thank the honourable senators of the Committee on Banking, Trade and Commerce for giving us the opportunity to appear before you as you deliberate on all aspects of Bill C-58.

We recognize that the controversy over *Time* Canada's place in the Canadian magazine industry has been attend-

ed, to say the least, by a conflict of strongly-held convictions. For our part, we believe that *Time* Canada, with its highly professional staff, made a positive and constructive journalistic contribution during its 33 years of publishing in Canada. We take great pride in the degree of reader acceptance the magazine achieved here.

The history of the Canada edition went back to 1943 when the special Canada editorial section was created and an Ottawa news bureau opened. By 1975 the net paid circulation, as audited by the Audit Bureau of Circulations, had grown to over 525,000 and the Montreal editorial staff to 22, served by an additional six full time staff correspondents in news bureaus in Montreal, Ottawa, Toronto and Vancouver. *Time* Canada also employed the part-time services of some 40 stringer correspondents, on a more or less regular basis, some 50 photographers, Canadian cartoonists and cover artists from across Canada. The full-time business staff numbered 30. Many more were employed by suppliers providing the services needed by such an active publishing enterprise.

It was therefore with the deepest regret and reluctance that we announced on March 1, 1976 our decision to cease publication of *Time* Canada and disband our staff. We had no alternative. The decision was forced upon us by the so-called "Cullen Rule" demanding a more than 80 per cent difference from the U.S. edition and the extraordinary determination of this government to apply the law retroactively to January 1, 1976. By March of this year, the human and business costs simply became too great to bear.

We are convinced that we responded in a constructive way throughout to the concerns reflected in Bill C-58. We would like to repeat that we did not seek a special exemption, a special status, a special privilege of any sort. We did not and do not oppose the principle of Bill C-58, as we stated publicly numerous times. Our repeated request was only that the federal government provide a specific and early official interpretation of the income tax statutes' provisions so as to give *Time* Canada a reasonable opportunity to become a Canadian newsmagazine in all respects—that is 75 per cent owned and controlled by Canadians, and under the editorial authority of its Canadian editors.

Fundamental to our policy was the belief that fair treatment would be given us as we sought to become Canadian under all provisions of the amended law. We were wrong. After many months of refusal to provide us with an official ruling on the law's content provisions, last October 23 the government through National Revenue Minister Cullen, issued a press release announcing the arbitrary and, we believe outrageous "more than 80 per cent different" requirement. This we understood was to apply to all Canadian magazines.

We believe, along with a large number of Canadians inside and outside of Parliament, that this definition grossly distorted the meaning of the law. Severely compounding the issue further, it was subsequently announced that an exception would be made for digests. The October 23 doctrine of difference would not now apply to digests as long as their foreign source articles were condensed in Canada.

Clearly to us the "Cullen Rule" and this special exemption for digests were designed to eliminate *Time* Canada and to save the *Reader's Digest*.

Our conclusion in this regard was based upon the reactions of the Government to our sincere and bona fide attempts to comply with and conform to the original stated policy objections of the government by a reasonable and

sensible interpretation of the Income Tax Act. The reactions in response to the decision of the directors of *Time Canada* to become a Canadian enterprise and publication in compliance with the law are outlined here. They include:

- a basic change in what we had been informed by officials of the Department of National Revenue, May 6, 1975, was a reasonable and logical interpretation of the content requirement in the act, giving a meaning which in our view is quite contrary to its text.

- refusals of our requests for an official advance ruling on the meaning of the "not substantially the same as" clause by the former Minister of National Revenue in a letter to *Time Canada Ltd.* dated June 5th, 1975, and by the present Minister of National Revenue by telephone on October 6, 1975.

- the denial by the present Minister of National Revenue of our request to seek a speedy interpretation by the courts of the content requirement in the Income Tax Act.

- the statement by the present Minister of National Revenue that he would amend the law if the courts did not uphold his interpretation.

- the adoption of another official interpretation of the act, also bearing little or no relation to its text, to permit the *Reader's Digest* to continue publishing a Canadian edition.

- the refusal of the present Minister of National Revenue to meet with us to discuss this second interpretation.

Based on these and other factors, it was not difficult to conclude that the government was bound and determined to take action, whether or not by passage of Bill C-58, to rid Canada of the Canadian edition of *Time*.

Notwithstanding our decision on the basis of the above to suspend publication, we sought the opportunity to appear before this committee. We wished to record before this body what we consider to be the irresponsible manner in which *Time Canada* has been treated after some 33 years of service to the Canadian public. We strongly believe that little, if any, attempt has been made by the elected officials of this government to act in accordance with the terms of the legislation which the Senate of Canada is now considering. Consequently, a profitable editorial and publishing enterprise, duly incorporated in Canada, acting in good faith, has been destroyed. Its employee's careers have been eliminated. This government's disregard for the wording and intent of the law has resulted in the expropriation of our business, with damages totalling millions of dollars.

When political policies and ministerial directives are given precedence over legislation and its proper interpretation and administration, one can only have grave concern for the basic principle of the rule of law in this country. This is a far more fundamental issue than the continued existence of the Canadian edition of *Time* and one to which we would direct the attention of this committee in the presentation of this brief.

Senator Walker: There is something I do not understand, Mr. LaRue. So many of us in the Senate are very favourable to your cause, but you came to the conclusion that the whole thing was over, that the ball game was up, before it even got to the Senate. Why did you do that?

Mr. LaRue: As I said at the opening of my brief, —

Senator Walker: I read your brief.

Mr. LaRue: —human and business costs were mounting to such a great extent that we saw that we could no longer carry on for yet another indefinite period of time. At the time we ceased publication, or suspended publication—however it can be characterized—the law, once passed and given royal assent, if that happens, would become retroactive. Our business was suffering to the extent of \$70,000 per week.

Senator Walker: You were losing?

Mr. LaRue: Yes.

Senator Walker: Why?

Mr. LaRue: Because of the erosion of advertising revenue, and the fact that we had to guarantee our advertisers to hold them free of any tax penalty, rebating half of what they had invested, and were investing on a reduced basis through that period of time. The human side is perhaps a little more difficult to describe; it is less tangible. We have had a very faithful and highly talented staff of journalists and business people hang with this magazine, with only one exception, through a period of almost two years of trying to resolve this situation. As I have tried to point out in the opening of my brief, time after time, as we first of all made our decision to qualify according to the terms of the law as it would be amended, once we knew how it would be amended—and we did not know that until January 23, I believe, of 1975—we met one frustration after another, of course. Having gone through all of that, the human cost, once January 1, 1976 passed, mounted at an exponential rate, the business was deteriorating very rapidly.

Senator Walker: Were you losing money?

Mr. LaRue: Oh, absolutely.

Senator Walker: Were you making money before?

Mr. LaRue: Yes, sir.

Senator Walker: Much?

Mr. LaRue: I do not know what the final profit figure will be for 1975, which was, while abnormal, not an unusual year in that sense, because the effective date of the bill was not of concern to the advertisers.

Senator Walker: But you never gave any thought to just waiting to see what the Senate did?

Mr. LaRue: Yes, we did, sir; we gave very careful thought to it.

Senator Walker: You could have waited a few months more, couldn't you?

Mr. LaRue: We felt that the cost —

Senator Walker: Excuse me. Didn't you know that this was the place of sober second thought, the senior body in the parliamentary system?

Mr. LaRue: Yes, sir.

Senator Walker: And the one against which nobody can complain. Suppose we don't accept this bill. Did you ever think of that?

Mr. LaRue: Yes, sir. That is one reason why we took the course we did, by not closing down absolutely and com-

pletely and leaving Canada. We took a mid-course, though we had to reduce our staff, and editorial staff in particular, and remain here supplying the services that our advertisers want as well.

Senator Walker: You are all ready to renew business, if we amend the bill?

Mr. LaRue: It would depend, sir, on the conditions under which that business would have to be operated, and if they were ever made clear and specific. That has been the problem all along.

Senator Walker: Did you never consider taking up the new boy, the Honourable Mr. Cullen, and his threat that, if you did go to the law and succeed, he would still amend the bill and still make a law to insist on the 80 per cent?

Mr. LaRue: We had a meeting with Mr. Cullen on that very subject, of course. I would defer to counsel on the particulars with relation to that question. It is an important one.

Senator Walker: Why did you not wait long enough to find out? I mean, who is Mr. Cullen? He is just a minister. He is a new boy. The other fellow is a wild man. What is his name?

Senator Laird: Mr. Faulker.

Senator Walker: Faulkner, yes, and he is an unimportant person. Why were you so impressed by these two young ministers?

Mr. LaRue: One reason is they were speaking of government policy, and having a Cabinet decision to proceed with this interpretation.

Senator Walker: Well now, just a minute. Was it not Mr. Faulkner who always made the interpretations and carried the government along with him?

Mr. LaRue: No.

Senator Walker: You think the government made them, do you?

Mr. LaRue: That is right.

Senator Walker: I see.

Senator Laird: Excuse me, Senator Walker. I pressed Mr. Cullen on that and he assured us that it was government policy which he had cleared. You may recall that.

Senator Walker: No, I do not remember that.

Senator Laird: Well, he did.

Mr. LaRue: In business terms, Senator Walker, I am sure the advertisers would believe that.

Senator Walker: They were cutting you down, is that it? I can well imagine.

Mr. LaRue: There is turmoil in the marketplace and any time there is, the business suffers.

Senator Macnaughton: Uncertainty, yes.

Senator Walker: If you get rid of that 80 per cent and some satisfactory arrangement is made to take the place of the 80 per cent, you would not object to that? Could you use it?

Mr. LaRue: We have felt that—given Canadian ownership and control, which we had planned upon, to the extent required by the law—that, like other news media, should suffice in this country to satisfy the objectives of Bill C-58, and that there should be no content requirement. We think that is a very dangerous sort of law to have on the books, in the first place.

Senator Walker: I think so too.

Mr. LaRue: It is not in the law and that is the biggest problem.

Senator Walker: It is not-what?

Mr. LaRue: There is no specific requirement within the law as to content. It is a very vague term.

Senator Walker: That is true.

Mr. LaRue: The debate has raged over this.

Senator Walker: There is no trouble. No matter what court you went to, you would not get an 80 per cent?

Mr. LaRue: We do not believe so.

Senator Walker: That is all I want to ask you initially, to find out whether we have been working for nothing. We are working for a principle here. I do not know you from Adam. I talked to you on the phone once. We have no interest in any individual here but it is the principle with which we are concerned, and a great many Liberals are concerned with it.

Mr. Douglas Andison Q.C., Counsel, Time Canada Limited: One of the problems here, senator, is it is not our taxes which are at stake, it is the advertisers' taxes. We have a limit on our ability to go to the courts in that sense. There is a speedy process provided for under the Income Tax Act by which, with the consent of the minister, a question can be put to the Federal Court for decision. We specifically asked the minister to go to the court with us on that point, and he refused.

Senator Walker: He refused?

Mr. Andison: Yes.

Senator Walker: You could have had it cleared up that way in a couple of months?

Mr. Andison: I would have thought so.

Senator McIlraith: Just to clarify one part of your answer, you could not go to the courts on your own account, since you were not the taxpayer?

Mr. Andison: That is correct, Senator McIlraith, certainly not under the appeal procedures in the Income Tax Act because it is the advertisers' tax or deduction that is disallowed, it is not our deduction.

Senator McIlraith: I wanted that clearly on the record.

Mr. LaRue: May I add something, sir? For the advertiser to challenge it, he has to have his deductions challenged in turn, and that is years down the road. Nothing can be resolved until long after, perhaps, this present situation is resolved.

Senator Walker: This seems an enormous thing that the minister would do this. Did he give you any specific reason for making that statement, which is almost the beginning of a rule of dictatorship, when you start talking that way?

Mr. LaRue: This was government policy. This was repeated to us in that way. It is the interpretation being given to the law, through the announcement of the Minister of National Revenue of October 23. It was a statement of government policy backed by Cabinet approval.

I have noticed he has avoided—we talk about this further in our brief—both here and certainly before the Commons broadcasting committee, in that testimony he has not said this is the law; this is government policy, rather.

Senator Walker: Not yet anyway.

Senator Cook: What is that section you are referring to? I am not familiar with it.

Mr. Andison: There is provision for an application to be made to the Federal Court to determine a question of fact or law, or mixed fact and law, if the minister will consent to the matter being put before the court.

Senator Cook: By anyone, I suppose, by any interested party?

Mr. Andison: By the taxpayer and the minister; they jointly put a question to the Federal Court. In fact, senators, there was a case on this very section of the act called JK Publications, which I think has been referred to in earlier testimony, in which the minister did consent to go to the court on that basis, and the matter was dealt with under that application procedure in that case and it was a matter arising under subsection (4) of section 19.

Senator Cook: Have you the reference handy?

Mr. Andison: No, but I will get it for you.

Senator Laird: That would be similar to a stated case being referred to the court of appeal.

Mr. Andison: That is quite right.

Senator Laird: Mr. Chairman, I would like to ask a very fundamental question at this stage about something you say on the very first page of your brief to the House of Commons. I will read the first couple of sentences.

The new TIME CANADA was designed to serve both its readers and the broader Canadian cultural interest. It would have drawn on the worldwide facilities of TIME, as one of its news sources, for a magazine edited from cover to cover wholly within Canada and from a Canadian perspective.

Before the submission of this brief, was this made plain to the ministers involved?

Mr. LaRue: Yes, sir.

Senator Laird: Because, according to the evidence before us from the ministers, this was the deciding factor in the *Reader's Digest* decision.

Mr. LaRue: The discussions we had with the ministers and with the officials of the Department of National Revenue, of course, had to do mainly with the interpretation of the "not substantially the same as" clause. It also had to do with all the other so-called hoops we had to go through in order to qualify.

Built into Canadian control of this enterprise, once sold to Canadian investors to the extent of 75 per cent, is authority. That includes editorial authority for the construction and presentation of the magazine, once we quali-

fy under the amended law. That was threaded through our discussions. It has also been clearly stated, we believe, in the various statements we have made in our magazine to the public over the course of this debate in the last year.

Senator Laird: You see, your problem, according to your brief, boils down fundamentally to this difficulty arising out of the 80 per cent rule, does it not?

Mr. LaRue: Yes.

Senator Laird: You are prepared to comply with the other conditions, the ownership conditions and, having in mind what I have just read you, you made it plain to the ministers concerned that you would treat your material from a Canadian perspective.

Mr. LaRue: Absolutely.

Senator Laird: That is what got *Reader's Digest* out of the hole.

Mr. LaRue: *Time Canada* would be responsible to the Canadian board of directors, which would be made up proportionate to their ownership.

Senator Laird: I realize the force of that. You did make it plain you were going to comply, in that respect, with what they considered the rule that should be applied to have the content "not substantially the same."

Senator Walker: I guess the difference between you and *Reader's Digest* is that *Reader's Digest* had a French-Canadian edition, and when the Frenchmen in Quebec go to work, they really have quite an influence on the government, have they not?

Mr. LaRue: I suppose it has a political effect.

Senator Walker: And you have not?

Mr. LaRue: *Time* is English.

Senator Macnaughton: Perhaps their presentation was good.

Senator Walker: Was their presentation in French or in English?

Mr. LaRue: I am not aware.

Senator Hays: Mr. LaRue, I am a little bit foggy on the reason why you possibly did not see fit to comply with the 80 per cent or the 100 per cent rule.

My question is: Can we have such a magazine as *Time*, or such as *Maclean's*, which is attempting to copy *Time* almost page for page, without tax exemptions of some sort or benefits to the advertiser? I am speaking of the dollars. You lose \$70,000 a week.

Mr. LaRue: That was caused by an erosion of revenues from advertisers in the first months of this year, which continue on.

Senator Hays: The advertiser got some help; he did not pay as much for advertising?

Mr. LaRue: We have agreed to a rebate of 50 per cent of what he paid in the first two months of this year.

Senator Hays: Maybe I am not making my point. I am wondering if anyone could have such a magazine. In the United States many of your magazines have failed, certain kinds of magazines.

Mr. LaRue: That is a qualitative and subjective judgment of ours, that for a magazine of international quality and standards the market here simply would not support the costs—the editorial costs, the full-time staff members around the world; and that is necessary to produce a magazine according to the standards as we see them. So, the answer to your question is, I do not think so.

Senator Hays: Canada would literally be without this sort of magazine because nobody in Canada or anywhere else, you are saying, would support it with the dollars involved?

Mr. LaRue: As we say in our brief, the evidence may be that there are really only three countries in the world that can sustain worldwide news services on their own, in the free world. One is the United States, one is Great Britain, and one is France, I believe.

The CBC has, I believe, six or seven correspondents around the world. Canadian Press, and I stand to be corrected on this, would have seven or eight, perhaps, not 40 or 50 to draw on.

Senator Hays: What you are saying is that if anyone attempts to do what you were doing they will fail because of the dollars involved?

Mr. LaRue: They will not have the kind of magazine I am talking about.

Senator Hays: Because economically it is just not possible?

Mr. LaRue: I do not see it. That is my judgment, and our judgment. That is why the newspapers and television networks rely on the syndication of material directly, as is, from outside sources. That is why there are syndication agreements between CBC and CBS and NBC, I believe, to pick up material live, on the spot the same day in their news broadcasts of international events. When there is an earthquake in Italy, CBS, through its facilities, because of the huge market the U.S. has, can sustain those costs. Canada cannot. It is a matter of economy of scale.

Senator Hays: You are saying we may have something that would sustain what the Canadian people have enjoyed, but in the long run it will just fold and there will not be this service to the Canadian people.

Mr. LaRue: A measurable dimension is added—and this is one of the reasons this content thing bothers us—if those facilities can be freely available by choice of the editor and published, no matter whether it is European, U.S., or the *Globe and Mail* or the *New York Times* service or what-not.

Senator Hays: Have you a figure that you can tie to 1975, for instance? I am thinking of the amount of benefits *Time* Canada would have received through lower costs for their advertisers or other benefits. Yesterday we kicked around a figure of some \$8 million which is now going to be distributed.

Mr. LaRue: I think Mr. Hodgkinson was right in using, I assume, the magazine association net figures. It will come out slightly over \$8 million net revenue to *Time* Canada. That is what it has been, give or take \$500,000, over the past several years. This year, if you want a comparison of last year to what this year may be, this year will probably be in the neighbourhood of \$1.5 million.

Senator Hays: Under the new regulations?

Mr. LaRue: Under the conditions we are now in.

Senator Hays: Are you saying you would have dropped \$7 million?

Mr. LaRue: Mr. Findlay estimates that advertising revenues this year for *Time* in Canada, having ceased publishing *Time* Canada, in this market because of the problems here, will amount to about \$1.5 million compared to somewhat over \$8 million last year. The advertisers cannot count on being able to deduct the cost of advertising this year because of this bill.

The Chairman: Mr. LaRue, I think it is about time you gave us a recital of the efforts you have made with Ottawa to get an understanding of the content rule, and I believe in reading your brief that you reached a position where you would be able to deal with the capital requirements. Would you just tell us about that?

Mr. LaRue: Mr. Chairman, in the fall of 1974 the directors of *Time* Canada—we have a board of nine, four of whom are outside Canadian directors, the others including myself and officers of Time Incorporated—decided to seek Canadian ownership to the extent of 75 per cent, as clearly stated, easy to understand, in section 19 of the act. We were not aware of, nor could it be determined at that time, exactly what form the amendment would take which the Secretary of State announced would be forthcoming. That announcement was, I believe, in September of 1974. What form would that take? In the interests of the Canadian magazine industry and to suit the objectives of the government and his department, how would he amend the act? In other words, what would then be necessary for us to do?

Well, we learned that on January 23, 1975. It was very simple: to remove subsections (2) and (4)—but specifically (2) in our case, the so-called grandfather clause—leaving all other requirements in place. We decided then, of course, that if we were to comply, and attempt to become Canadian in all respects under the law, we would have to understand what the content provision meant in terms of our magazine.

In February, Mr. Basford, in the interview with Mr. Lavoie of Canadian Press, referred to the “not substantially the same as” clause.

Senator McIlraith: February, 1975?

Mr. LaRue: Yes, that would mean 60 to 80 per cent. Certainly, between 60 and 80 per cent would have to be reviewed and decided on an individual basis by the Department of National Revenue and its officials.

We got in touch with Mr. Basford and at the same time made a decision to proceed with our own study of what changes could be made in connection with this within the magazine in order to satisfy our good editorial judgment, in order to attempt to comply with this particular provision of the act. We were satisfied pretty well by that time that we could accomplish the other various requirements.

The Chairman: Do you mean that capital requirements?

Mr. LaRue: Yes, the Canadian ownership—given an investor or two—and we were in touch with several who expressed interest, but of course no agreement could be settled upon until we knew what kind of magazine we were going to have to produce under section 19, under the content requirement, or if indeed we would be willing to produce one under whatever determination the govern-

ment would make of that clause or whatever decision it made upon it.

So we proceeded through that spring and we met with Mr. Basford. And I believe we met, both he and we, in good faith. On April 25 he agreed to meet with us, with our officials. We delivered a sample magazine on April 25 and our meetings took place, beginning on Monday, May 5, and went on into the 6th and into the 7th. These meetings were about a ruling based on the sample copy of the magazine as compared to the U.S. edition of a particular week that spring.

Those were intensive discussions. We were talking about the law. Mr. Anderson was very much involved with us in that, and, if I may, I would like him to describe to you several of the facets having to do with the discussions we had with the officials and Mr. Basford on the more technical aspect, as we tried to find out what this meant in the minds of those in the Department of National Revenue.

Senator Macnaughton: Was Mr. Basford always present?

Mr. LaRue: No. We met with Mr. Basford on Monday, May 5. He invited us, in a very positive way, to meet with his officials either that night or the next morning with the dummy magazine to see what we could come up with.

Senator Walker: So far as Mr. Basford was concerned he was very fair, wasn't he?

Mr. LaRue: Yes.

Senator Walker: Yes. He is a fair man.

Mr. Anderson: Just to elaborate, honourable senators, we were under the impression at that time that what we were talking about was what the law meant as it was written, and we had done some research of our own on it and had come to the conclusion that certainly the figures of 80 per cent and even 60 per cent did not represent what we thought a court would determine faced with this. And so in our discussions with Mr. Basford and subsequently the next day with his officials, we were under the impression that these discussions were based on the law. The next morning when we met with the officials we talked about the "substantially the same as" language and what that would mean, and we talked then in some considerable detail about the criteria by which the measurement would be made once the figure was determined. In the course of those discussions we were given—at least, I was given the very strong impression that as a result of deliberations that had been carried out, we were told, by an interdepartmental committee that was formed for the purpose, which I understand had included representatives of the Department of the Secretary of State and the Department of National Revenue with some input from the Department of Justice, a conclusion had been reached—perhaps tentative, but at any rate a conclusion—that 50 per cent or more than 50 per cent was sort of the number that they had in mind, and we were shown at that time a copy of the interdepartmental memorandum, which has been referred to in earlier discussions, which referred specifically to the 50 per cent number.

After that, in the course of the morning—we met for the whole morning—the whole conversation relating to the criteria was all predicated on this 50 per cent and how it would be measured: whether it would be, when looking at a specific article to determine whether it was "substantial-

ly the same", that you would sort of measure the lines and see whether 50 per cent was the same or not, or whether you would count the words, or what. We went into quite a bit of detail on that.

Senator Austin: When you refer to a memorandum, is that the document you referred to in your *Time* issue of January 26, 1976, when you say you were given a copy of a departmental memo addressed to Mr. Basford and signed by his deputy minister?

Mr. LaRue: Yes. The "at least half rule" is what that is called. "Fifty per cent" was not used.

Senator Austin: Do you have that document in your possession?

Mr. LaRue: I have the wording of it.

Senator Austin: You were given a copy of the departmental memo. Do you have that copy for us to look at?

Mr. LaRue: I was given a copy of the body of the memo. I have it on onion skin.

Senator Austin: May I look at it while you are putting your evidence in?

Mr. LaRue: Yes.

Mr. Anderson: We went away from that meeting—I don't want to leave a misapprehension here. We understood that there was no commitment by the department at that point in time. We understood that the matter was of sufficient importance that it would be decided at the ministerial level or that it would not be decided without further discussion at the ministerial level. I don't want to say that we felt we had a commitment, but we went away from that meeting...

Senator Walker: You did not say you had a commitment. You did not say that at all.

Mr. Anderson: We went away from the meeting feeling that when the experts in the Department of Justice and so forth had looked at the language in the statute to determine what it meant for the purposes of administration they would come to the conclusion that this was a reasonable interpretation. Therefore, we went away and the next day we delivered by hand to the department an amended application for ruling which reflected that understanding.

Prior to that in our application for ruling we had asked them to rule on the basis of the physical comparison of the dummy magazine and the corresponding U.S. issue. It was apparent that they would not rule favourably on that, because, just by way of explanation, when you measured that with a ruler it came out to about 42 to 43 per cent different. I was never convinced, in my own mind, that that was the way to determine whether something was "substantially the same as" or not, by measuring lines with a ruler; nevertheless, it would seem to be the position of the department, and I understand clearly why: they needed some solid rule for administrative purposes or the thing would be unworkable.

Senator Walker: Aside from the dummy, for the moment what legal precedents are there for the departmental ruling that "substantially the same" means a little more than 50 per cent?

Mr. Anderson: There are no specific legal precedents, Senator Walker. We did quite a bit of research. The thing

that comes out of most of that research is that the word "substantially" is a very nebulous word to put meaning to. But perhaps —

Senator Walker: Just give us a general answer, will you? We would just like to know, first of all, whether there are any legal precedents and what the precedents are in the department itself. "Substantially different," those are the two words puzzling me.

Mr. Anderson: There are apparently no precedents within the department itself, because before the committee of the other place—I am referring to the report of the committee hearings of December 4—on three or four occasions Mr. Hodgson, who was giving evidence at the time, was asked specifically whether there had been any prior rulings given by the department. I think this was in response to evidence given by Mr. Hodgkinson, when he appeared on behalf of *Maclean's*—and I understand he gave the same evidence yesterday—that from the beginning it had been understood that the 80 per cent rule was the rule. Mr. Hodgson, the Deputy Minister of National Revenue, when he was asked that question specifically, said:

Mr. Chairman, we could not judge the answer to a question of that kind. All I can say is that we have not, prior to 1975, been asked to make any rulings and have not made any rulings.

That statement is repeated three or four times through the evidence of Mr. Hodgson that day.

We can only conclude, I believe, that there were no specific precedents within the department. When ones goes to the law it becomes a rather nebulous thing. Perhaps I could just read one brief citation from an Australian case:

The question of whether one work is substantially identical with another must be determined primarily by comparing the two things. In such cases the appeal is to the eye and to the eye alone as an unerring judge of the identity of two things.

As you read the cases, you find consistently the courts saying that it is impossible to set a rigid percentage figure as a test for language of that kind in a statute. On the other hand, we understood that from an administrative point of view it was necessary to have some peg to hang their hat on, and for that reason that some percentage figure, at least as a guideline, would have to be arrived at, or some equivalent percentage figure.

Senator Macnaughton: So the department decided on this 80 per cent?

Mr. Anderson: Yes, they chose it eventually. As I say, we went away from the meetings in early May with the very strong impression that, as a result of extensive deliberations between the departmental officials involved, they had come to a figure in the area of 50 per cent. From that point until October 23, when the press release was issued by Mr. Cullen, there was no indication from the department of a change in attitude. It was not until October 23, when the 80 per cent figure was announced...

Senator Walker: Just a moment! It was not the departmental officials who made that decision; it was Mr. Cullen.

Mr. Anderson: Yes.

Senator Walker: My friend asked you about the department. Did they ever change their thinking on it, or was it just Mr. Cullen?

Mr. Anderson: The departmental officials gave evidence before the committee of the other place. I cannot recall specifically whether they were asked if they themselves had changed their minds about it.

Senator Cook: Mr. Cullen said in his evidence before the Senate Banking, Trade and Commerce Committee on May 5:

I would not be a bit surprised if evidence subsequently came up that they

... that is you...

apologised to our officials for indicating that they had that interpretation in mind.

That is about the 50 per cent.

Mr. Anderson: I read that. I did not think that was a fair comment. We did not apologize, in the sense that I did not think we needed to apologize. We made it very clear at the meetings there that we did not go away from that meeting with the understanding that we had a commitment. I think the statement he is referring to arose in that context. We were asked whether we had been given a commitment and we said no, by no means, but we went away with a very firm impression that that is what we were talking about.

Mr. LaRue: Mr. Basford made it clear to us that a policy decision by the government was necessary; he was going to make that at that time if the bill was being debated rather longer than had been anticipated by the government. He made it quite clear to us that he would not give us a specific ruling on the point of law. While the officials and counsel would believe that at least half would be a fair, representative and accurate reflection of that murky phrase, we had to understand, said Mr. Basford, that the government had to make a policy decision on that, so that whatever came out of that was as a result of that.

Senator Cook: But after two meetings, after considerable discussion, you left, rightly or wrongly, with the impression that the policy decision would be in the ball park of 50 per cent?

Mr. LaRue: Yes. We had a meeting of minds.

Mr. Anderson: Let me just say this. At those meetings it was my very strong impression that both sides were attempting to interpret the law as it was written. Since their conclusion about what the proper interpretation was came very close to what our own interpretation of what the law was, we felt reasonably confident that it was going to come out somewhere in that area. With respect to the minister, it seems to me that at some point after that there was a departure made from attempting to interpret the law as it was written, and the thing was escalated into what the minister described as "government policy."

Senator Walker: Had the minister changed? Had Cullen come into the picture then?

Mr. LaRue: He came in in the fall, in late September.

Senator Walker: What I mean is, before the decision of 80 per cent came down did Cullen come in, replacing Basford?

Mr. Anderson: Before the decision?

Senator Walker: Yes, before the decision.

Mr. Anderson: Yes, he had. The decision was announced by Mr. Cullen in a press release of October 23.

Senator Walker: He was the minister by then?

Mr. Andison: Yes. He became minister on September 26.

Senator Walker: So Basford ceased to be minister; he became Minister of Justice. Cullen took his place, and then there was a *Volte face* on what your understanding was as to the policy of the government given to you in two meetings; Cullen came down with this extraordinary statement. Is that correct?

Mr. Andison: Yes. Statements have been made before you, honourable senators, that the meetings we had were for the purpose of discussing format and so forth. With respect, there would have been no reason for the officials to disclose to us that interdepartmental memorandum, with that "more than half" test in it, if that is all we were discussing. There is obviously perhaps a difference in recollection between the parties who partook of those meetings, but on our part, at least, the best of my recollection was that there was a good deal of discussion about what the content or "not substantially the same as" language would mean.

Senator Macnaughton: Is it fair to say that you thought you had reached an understanding?

Mr. LaRue: Absolutely.

Mr. Andison: Again, I would like to be very clear that that should not be taken to mean that we had a commitment.

Senator Walker: You have said that five times now, and your boss—excuse me, your client—Mr. LaRue, has said, "absolutely."

Mr. LaRue: We had a meeting of minds on a technical basis of what those words mean on a reasonable interpretation that we could both understand, having to do directly with the wording of the law.

Senator Lang: I refer back to some of the evidence Mr. LaRue gave a few moments ago in connection with the necessity for syndicating news in order to create a viable publication in a country with a limited circulation, such as Canada. I assume the *Globe and Mail* relies rather heavily on syndicated columns. Could you give me any opinion on whether the *Globe and Mail* could meet an 80 per cent Canadian content rule?

Mr. LaRue: I have talked to people at the *Globe and Mail* about this and they do not believe they could publish on a regular basis if they were restricted to the "80 per cent different" criterion.

Senator Lang: If, by any chance, the *Globe and Mail* became a non-Canadian newspaper it would immediately have to go out of business.

Senator Davey: That is not possible.

Senator Lang: I know that is not possible, but the converse is possible, that *Time* could become a Canadian magazine and volunteer to do so under the terms of the bill.

Mr. Andison: The "not substantially the same as" rules do not apply to newspapers.

Senator Walker: We know that.

Senator Laird: Senator Lang is putting a hypothetical case to you.

Senator Walker: Mr. Andison, don't be so technical, if you don't mind. He is giving you an analogy.

Mr. Andison: I beg your pardon, senator.

Senator Walker: I know you cannot control the meeting, but you just have to be careful. What about that great, mighty newspaper the *Toronto Star*? Would the same rules apply as to the *Globe and Mail*, that it could not be published?

Mr. LaRue: I have never measured it, so I really cannot answer it with any accuracy.

Senator Walker: It is pretty hard to measure. You did measure the *Globe and Mail*, did you?

Mr. LaRue: We have talked with people at the *Globe and Mail* and others.

Senator Walker: If the *Globe and Mail* is heavily syndicated, is not the *Toronto Star* far more so?

Mr. LaRue: I don't know.

Senator Cook: That is a hypothetical question.

Mr. LaRue: Maybe they use a rather different description of the material they publish by saying "Special to the *Star*," so it is quite often a little difficult to know where it came from.

The Chairman: I was wondering, before calling on other honourable senators, whether Mr. Andison had finished his recital of the efforts they made to get an understanding of what the content rule was going to be. Have you finished?

Mr. Andison: I think I have, Mr. Chairman, unless there are some questions that arise out of it.

The Chairman: There is only one question I can think of if I might interject, and it is this: Why did it become so important to determine the content rule? You had negotiated your capital position. What was the relationship of the content rule to the completion of the capital situation?

Mr. Andison: There are a number of pre-conditions for qualifying as a Canadian periodical, and all of them are equally important; if you miss on one you miss on everything. It was therefore essential to know whether we could meet the "substantially the same as" provisions before a firm deal could be made with prospective investors. As you can well imagine, the investors were not prepared to buy a pig in a poke; they wanted to know there was a viable asset there before they would conclude any sort of deal. It was essential that we get some definitive determination of those terms to determine whether the magazine could comply, and therefore continue on as a viable business asset.

Mr. LaRue: This all goes into the cost of the property, of course, along with the licensing requirement, the requirement to wholly typeset the magazine in Canada. Apace with our work on the content question we had to go to work with outside firms, for example on typesetting, to see if the teletype setting operation could be set up in Montreal to receive raw material from *Time* and elsewhere, to come to the editors weekly in order for them to form the magazine. We finally nailed that down in the middle of the summer and were satisfied that we could have a speedy

operation that would work with the quality we needed and the speed we needed.

Senator Macnaughton: No technical difficulties.

Mr. LaRue: At a cost, for example, of about \$300,000 a year, about what we spend now.

Senator Cook: I was talking about the content rule. I think we only got to the first section. In other words, Mr. Andison was talking only about what took place with the officials on May 6 on the changeover. On page 3 of your introduction you refer to a number of your requests and I would like you to elaborate on each of these sections. You say:

refusals of our requests for an official advance ruling on the meaning of the "not substantially the same as" clause by the former Minister of National Revenue in a letter to Time Canada Ltd. dated June 5th, 1975, and by the present Minister of National Revenue by telephone on October 6, 1975.

Mr. LaRue: This follows on with our discussions with Mr. Basford, which were opened in the spring and carried through with the technical discussions, if you will, with his departmental officials in early May, and then our attempt to get a ruling two ways: On the dummy, in their judgment, as compared to a comparable issue of *Time U.S.* That clearly did not qualify us, as Mr. Andison has said. In the department's judgment our dummy was 42-point-something per cent different. Under the so-called "at least half rule" discussion, that would have been a negative ruling. It would have been fruitless to get a ruling on that.

However, we proceeded to attempt to get an advance ruling based on the wording in law. In other words, what does that mean for magazines? Mr. Basford decided, along with his colleagues, as he told us, that it would be best to wait for the broadcasting committee hearings in the other place to inform us and the public and Parliament about the government's decision on "not substantially the same as." That was in the letter of June 5.

Senator Cook: What did the letter of June 5 actually say?

Mr. LaRue: He said that, because the debate was going on longer than had been anticipated, he would not be able to give us an advance ruling on the words in law. It would have to await his testimony before the broadcasting committee in the House of Commons.

Senator Cook: Well, that wasn't a refusal as much as a deferment, was it?

Mr. LaRue: It was a deferral, yes, but at one point we had anticipated that we would get into early discussions.

Senator Cook: Why would you not read the letter to let us know what it says? The minister did not refuse. He left it open to you, did he not?

Mr. LaRue: He did not leave it open that he would give us a ruling specifically on the terms in law.

Senator Walker: Is it a long letter?

Mr. LaRue: No, it is not. It reads as follows:

Further to our discussions concerning the effects of Bill C-58 on Time Canada's operations, and further also to your letter of April 24, 1975 and the application for an advance ruling on the provisions of Section

19(5)(ii)(F) as applied to Time Canada, I wish to inform you of recent developments with respect to the above.

As you know, Bill C-58 has not yet been given second reading, even though it has been called for debate five times since its introduction in the House of Commons, April 18, 1975. Members of the official Opposition are expressing serious concern over the "not substantially the same" provision of Section 19, and although they have stated their support for the general principle of the bill, they are highly critical of its specifics. In light of these developments, and in light of the very heavy demands being made on the House schedule before the June Budget, there exists a possibility that legislative progress on C-58 may be more prolonged than I anticipated when we met. I have also had further discussions with my officials and with my colleagues, the Minister of Justice and the Secretary of State, about the interpretation which will be given to clause 19(5)(ii)(F) of the Income Tax Act.

I would intend, when the bill reaches Committee, to make a general statement, the interpretation to be given to the meaning of the word "substantially". I am mindful that my statement may become a matter of debate in the Committee with respect to section 19(5)(a)(ii)(F), and the giving of an advance ruling at this time would not be proper in the circumstances and would in all likelihood add to the divisiveness of the debate.

Senator Smith (Colchester): May we have the particulars, who wrote the letter, when it was written, and so forth?

Mr. LaRue: The date was June 5, 1975, written by the Honourable Ronald Basford, Minister of National Revenue, and it is addressed to me, Stephen LaRue, President, Time Canada Limited.

Senator Cook: Did Mr. Basford make a statement on this to the committee?

Mr. LaRue: He did not because the debate carried on, you see, until summer recess, and then the fall session began and Mr. Cullen became Minister of National Revenue. Then Mr. Cullen made his announcement through a press release of October 23.

Senator Cook: Tell us about the circumstances of the refusal of the present minister by telephone on October 6, 1975?

Mr. LaRue: After Mr. Cullen was appointed, I telephoned him several times.

Senator Cook: Had the statement been made then?

Mr. LaRue: Oh no, this was in late September, after his appointment. I then telephoned him seeking an appointment to discuss with him this very subject. He returned my call several days later. We had a discussion on the telephone. He said he would not be able to see me personally because of his very busy schedule, getting into his new job, being faced with this particular piece of legislation and the need to interpret it, and that he would decide and make an announcement shortly; he could not at that time. He said he would tell me what it would be. He would not do that until he could make it a public announcement so that all could hear it at the same time.

Senator Cook: Tell us about the next section, you say:

the denial by the present Minister of National Revenue of our request to seek a speedy interpretation by the Courts of the content requirement in the Income Tax Act.

Mr. LaRue: This, Mr. Andison referred to earlier, and if I could, I would ask him to answer that. We had a discussion later in the fall, following the minister's announcement.

The Chairman: That is following the press release?

Mr. Andison: Yes. Following the press release, senator, a request was made.

Senator Cook: How?

Mr. Andison: Orally, initially.

Senator Walker: By whom to whom?

Mr. Andison: It was made by a partner of mine, Jim Tory, originally to the executive assistant. He was unable to reach Mr. Cullen, and subsequently Mr. Tory wrote a letter formally requesting it. There never has been a reply to that letter, but we were told orally that they would not agree, or would not consent to the application being made.

Senator Cook: Could you give us the date of the letter and all that sort of thing?

Mr. Andison: I can get it for you, senator.

Mr. LaRue: We do not have it with us.

Senator Cook: All right, the last item I would like to deal with is you say:

— the refusal of the present Minister of National Revenue to meet with us to discuss this second interpretation.

Would you give us the particulars of that?

Mr. Andison: After the announcement that was made with regard to *Reader's Digest's* ability to meet the "substantially the same as" provision, we were interested to know what changes had been made in the department's interpretation of that language which had that effect, in relation to *Reader's Digest*, because it might have had some effect on our ability to comply. So, we requested a meeting with the minister for that purpose. He declined to see us, but said we could go and see his officials. We did meet with Dr. Hodgson and Mr. Garland and the minister's executive assistant at the time.

The ground rules for that meeting, I guess I should call them, were that if any matters arose out of the meeting which would be regarded as policy, the minister might see us. There was a difference of opinion, as it turned out, between the officials, on the one hand, and us, on the other, as to whether it was a matter of policy, and the result of it was that the minister did not feel that he needed to see us in connection with that.

Senator Molson: Mr. Chairman, I have to go to another committee and, therefore, I am perhaps interjecting this question at the wrong time.

I would ask you, Mr. LaRue, if you were president of *Time* in 1965.

Mr. LaRue: I came to Canada in September of 1965.

Senator Molson: This was after the exemption was made for *Time* and *Reader's Digest*?

Mr. LaRue: That was in the June budget.

Senator Molson: So you are not familiar with the background of how your magazine got the exemption in the first place?

Mr. LaRue: Not personally. I was not directly involved with it. It is a matter of some speculation. I like to believe that it has to do with the fact that we had been here for a long time and had brought our editorial operation to Canada and were printing in Canada, incorporated in Canada and operating as good corporate citizens here.

Senator Molson: Were there any representations made by the State Department, or at that level?

Mr. LaRue: I am not aware of any formal representations. Whether conversations took place between the State Department and External Affairs, or other departments of the Canadian government, I simply do not know.

Senator Molson: Or any mention of the subject at even higher levels than that?

Mr. LaRue: There could have been, but I am not aware of it. Mr. Luce is reported by some journalist here to have leaned heavily on the President of the United States to talk to the Prime Minister, but I know of no evidence that that ever took place.

Senator Molson: It was also stated or brought up in connection with the Auto Pact matter at one stage.

Mr. LaRue: It may have been in the continuing talks on the Auto Pact. It was a matter of bilateral concern, and I suppose many things were discussed. Senator Molson, I have no evidence of that, and I do not know anybody who does have.

Senator Molson: I only bring it up because in your opening remarks, at the bottom of page 2, you point out that this process we are going through now was designed to eliminate *Time* Canada. That is what made me think how did *Time* Canada find itself in this position originally, and that was because it was exempted in 1965, it was given special treatment as was *Reader's Digest* in 1965.

Mr. LaRue: Right.

Senator Molson: Thank you, Mr. Chairman.

Mr. LaRue: A special treatment, incidentally, Senator Molson, which we no longer and for some time have not chosen to see continue.

Senator McElman: The late Senator Grattan O'Leary, who was chairman of the royal commission and confidante of prime ministers in Canada, stated the fact that the influence of Henry Luce, exercised through the State Department, brought about this exemption under the 1965 act. I would like your comments on that.

Mr. LaRue: As I say, I honestly have no evidence of that. In any case, I cannot believe that was the only factor if, in fact, that was a factor.

Senator Cook: Did Mr. Luce speak on behalf of *Reader's Digest* also?

Mr. LaRue: Heaven's no. They are perfectly capable, as we know, of speaking for themselves, and very effectively too.

Senator Austin: Yesterday, when I began my questioning of *Maclean's* magazine, I disclosed that I had written an article which they published in September of 1965. As I begin to question you, Mr. LaRue, I simply want the record to show that *Time* magazine finally published photographs which I had taken in the Soviet Union in May and June of 1965 in connection with a visit by the honourable Arthur Lang, who was then my minister.

Senator Walker: Isn't that just great?

Senator Davey: They did publish or they did not?

Senator Austin: They did.

Senator Davey: You are working for *Time* and *Life*.

Senator Austin: I have been in both *Time* and *Maclean's*.

Senator Walker: Go ahead.

Senator Austin: I appreciate Senator Walker's courtesy in congratulating me.

One of the interests of the committee this morning, Mr. LaRue, has been in the record of dealings of *Time* magazine with the Department of National Revenue. I simply want to recapitulate what you have said. If I am not correctly stating the facts, I want you to correct me.

As I understand it, you have said that a journalist working for Canadian Press interviewed Mr. Basford in February of 1975 and that in that interview Mr. Basford stated to the public and, of course, to yourself that "not substantially the same", in his mind, had a definition of between 60 per cent and 80 per cent.

Mr. LaRue: Eighty per cent, certainly.

Senator Austin: Eighty per cent was certain. Anything below 60 per cent was certain and between 60 and 80 per cent he had a question mark as to where he should come down. Is that a fair interpretation?

Mr. LaRue: Yes.

Senator Austin: Then you put together a mock-up of what you thought was an appropriate Canadian format and brought it to the minister; he referred you to officials, and you had discussions with officials. I understand you to say that in the course of those discussions an official showed you a memorandum from his deputy minister to the minister recommending, in effect, at least a 50 per cent rule. Does that correctly state your position?

Mr. LaRue: The "at least half rule."

Senator Austin: I have read the material which you showed me this morning. Perhaps it ought to be read into the record, but it does not really put any specific limit on. It does not say, "We recommend it be 50 per cent" or "51 per cent" or "60 per cent", or any per cent. It is clear, at a minimum, that "not substantially the same" means at least 50 per cent.

Mr. LaRue: The material, if it is at least half, new, fresh and original material would qualify as different material.

Senator Austin: It would qualify under that particular provision of the Income Tax Act.

Mr. LaRue: Right.

Senator Austin: Is that how you read it?

Mr. LaRue: Right.

Senator Austin: Perhaps you would read that particular document into the record.

The Chairman: Yes, I think we should read it into the record now. Would you identify what it is before you read it?

Mr. LaRue: This was shown to us by the officials of the Department of National Revenue during our very intensive discussions having to do with the "not substantially the same as" clause in the act and how it would be administered. That was on May 6, 1975.

Senator Austin: I believe you said you took away an onion skin copy of that document which you have in your possession still.

Mr. LaRue: But the names were taken off of the document because it was confidential. I removed the names myself. My interest was in what we were discussing, what the terms of difference would be.

Senator Austin: Otherwise that is the whole document.

Mr. LaRue: Yes.

Senator McElman: That memorandum was from a senior departmental official to the minister?

Mr. LaRue: Yes, from Dr. Hodgson. I did not see the signed document; I did not see if it was signed or sent; but it was shown to us as a completed memorandum that was to be forwarded to the minister on this subject.

Senator Austin: So you do not know whether it was either signed or forwarded?

Mr. LaRue: That is right.

Senator Austin: No one has ever told you whether it was signed or forwarded or given to the minister?

Mr. LaRue: That is right, but it related directly to and was the basis on which we held our discussions for two days.

Senator Austin: Fine.

Mr. LaRue: On the content question.

Senator Smith (Colchester): What were the circumstances in which that memorandum was produced and shown to you?

Mr. LaRue: During our meetings, when we were deep into the discussion of the structure of the magazine.

Senator Smith (Colchester): How did it come about that somebody pulled out the piece of paper and said, "Here, look at this."?

Mr. LaRue: Because it was relating to our discussions at that moment and it was shown to us by the departmental officials.

Senator Cook: For comment?

Mr. LaRue: Yes, and discussion.

Senator Austin: As representative of their point of view?

Mr. LaRue: We were told that an interdepartmental committee had had meetings over the past few weeks on this very point, wrestling with the problems to see what they could come up with that would relate to the wording in the law in a reasonable and fair way.

Senator McElman: That, in fact, then, according to their lights, would then become a recommendation of the minister?

Mr. LaRue: Right. Yes, and as Mr. Basford explained, there were policy considerations to be taken after that. We understood that. Again there were no commitments.

The Chairman: Did you have a question right on that point, Senator Walker?

Senator Walker: Yes, right on that point.

Mr. LaRue: Should I read this into the record?

Senator Walker: Yes. Before I ask my question go ahead and read it in.

Mr. LaRue: It reads:

The literary contents of a Canadian issue of a periodical need neither be written by Canadians nor be on essentially Canadian subjects.

The requirement is that at least half the contents be new, fresh, original material which has not appeared in any periodical outside Canada. A topic may be the same as one covered in a foreign publication; but, the writing must be sufficiently different so that there can be no infringement of the rights usually associated with the original article and the original author.

Minor additions or deletions to Canadianize a composition does not create substantially different content. Photographs and illustrations will be viewed as supporting the literary compositions in the periodical. Photographs which have been cropped, blown up, rearranged on a page, or replaced by a similar view of the same subject will not be viewed as different content.

That is the end of the memorandum.

Senator Cook: That is clear enough.

Senator Austin: If Senator Walker would like to ask his question before I continue, I would be pleased to have him do so.

Senator Walker: The new boy should be allowed to finish up his questions.

Senator Austin: Mr. Chairman, I take exception to put-down references by Senator Walker directed to myself. If other senators want to take them with their usual courtesy, that is fine, but I do not believe that references to me as a "new boy" have anything germane to do with the work of this committee.

Senator McElman: Hear, hear.

The Chairman: You know, what your interpretation of the memorandum is is your interpretation. I don't suppose there is going to be any place where there will be a ruling, a binding ruling, on what that statement means.

Senator Austin: Any senator can take his own interpretation —

The Chairman: That is right.

Senator Austin: —of the document. What I am objecting to is Senator Walker's referring to me as a "new boy". I don't believe he has any justification for diminishing my attempts to understand this legislation by personal references, and I am not prepared to have him do so.

Now, Mr. LaRue, as I understand it—and I would like to finish this item rather quickly and get on to what I think is more substantial material here—you are saying that you had public notice in February that the minimum standard would be 60 per cent. In May certain officials indicated to you that in their view 50 per cent would certainly be one of the tests that would indicate "not substantially the same;" you were aware that the minister had the discretion to make a judgment. You are not alleging that you in any way were misled by Mr. Basford or by Mr. Cullen in terms of what they might decide to do, and, really, the basic complaint you are making here is not anything represented to you by the minister or by an official but the merits of the decision itself to go to 80 per cent.

Mr. LaRue: Well, that is largely correct, senator. However, we had to restructure an entire business in a period of time that was running out very rapidly. The greatest concern to me was to know with certainty what the government's final decision would be as to a ruling on the terms in section 19, and to qualify under all of the other subsections of the law was meaningless until we could know for sure what would be required of the magazine in the way of fundamental changes on two counts: one, an editorial judgment once we knew whether or not it was feasible or desirable to attempt to comply under that particular part of the law; the other, whether it could be afforded—and could we then attract investors with substantial sums of money to invest in the future of this business for a long time to come?

Senator Austin: I appreciate that very much, and I understand the problems you would have as a businessman in understanding where your business was going. There are two separate questions here. One is: Were there misrepresentations? The other is: Was there a delay that caused difficulty for your business? I understand that you are saying that in no sense was there a misrepresentation or a misleading by the department or by the minister or, indeed, by any official, although you were made aware of the sympathies of certain officials. Your real complaint is that a decision which you were asking for in May was postponed until November and left you in an ambiguous position with respect to where your business interests were going. Is that fair?

Senator Walker: Just a moment!

Senator Austin: Could I have the answer to that question?

Senator Smith (Colchester): That does not seem like a very fair question, from what I heard.

Senator Austin: Mr. Chairman, the witness has heard the question. He can say it is not fair or that he disagrees with it. He can say anything.

Senator Walker: We are not saying it is not fair. It is an incorrect assumption of what he said, and I want to ask the witness a question.

Senator Austin: I don't think Senator Walker has the right to interrupt.

Senator Walker: When did you become the arbiter here?

Senator Austin: I am asking the chairman to make a decision.

The Chairman: Senator Walker, the chairman is supposed to run the meeting.

Senator Walker: Of course he is. I object to his assuming your position.

The Chairman: As I understand what Senator Walker now wants to do, he wants to clarify a point in connection with your question. Is that right, Senator Walker?

Senator Walker: That is it.

The Chairman: I think that is in order.

Senator Austin: Mr. Chairman, I have asked a witness a question. I am entitled to the answer, and then Senator Walker can ask whatever question he wants following the witness's answer.

The Chairman: Would you re-state your question, Senator Austin?

Senator Austin: Mr. LaRue, I was asking you whether in fact your chief concern, and the subject of most of our examination this morning, was in the delay occasioned to your business interests by the absence of a ruling from the time you sought it in May until October, rather than a complaint that you were in any way misled by the minister or by any of his staff in terms of what the ultimate ruling would be.

Senator Walker: I object to that question. That is a loaded question.

Mr. LaRue: I think, Senator Austin, that there was an element of misleading us. As I say on page 12 of our brief, quoting Mr. Faulkner from *Hansard* of May 8:

There need be no mystery or uncertainty as to how this clause is to be interpreted and administered. Administrators of the Income Tax Act are called upon daily for such interpretations and administrative decisions in respect to many sections of the Act, and in the case of dissatisfaction on the part of a taxpayer with an interpretation or decision, there is a well established process of appeal to the Courts. In the case of uncertainty in the mind of any publisher contemplating the publication in Canada of a periodical with a certain format and editorial content, it is possible, I am assured by my colleague, the Minister of National Revenue (Mr. Basford), to obtain an advance ruling from his department on the eligibility of that periodical for the benefits under Section 19.

We believed that we would be able to get an official ruling by mid-summer.

Senator Austin: Did anybody tell you that would be the case? Did a minister tell you he would make a decision by a certain time?

Mr. LaRue: No.

Senator McIlraith: I wonder if you could put on record where the statement just quoted comes from? It is in *Hansard* of the House of Commons of May 8.

Mr. LaRue: It was clear that this was a matter of extreme urgency for us because of the progress of debate on Bill C-58; it was clear this was a critical thing to have

answered, particularly given the date of effectiveness of the bill, on which the bill came into effect, of January 1, 1976. I think the two questions, Senator Austin, with respect, are related.

It is a matter of timing, and it is a matter of dealing in conversation and quite intensive discussion with one single purpose. There was no other reason for producing a dummy, for example, at considerable expense and great effort by our editorial staff, without directly deciding that this was what we were going to try to do to qualify, to comply in all respects with this law, and to go through—I can say this with conviction—a very extensive and complicated process of trying to sell this business, to establish a value to this business. It is a multi-million dollar business, and our responsibility to the present shareholders of this business is a great one, of course. There are legal considerations to be taken into account, to say the least, and many different areas. A lot of things had to be done apace, as I said earlier. The receptiveness and attitude toward us was a very important element in all of this order to try to get this thing done. No specific date was given.

Our discussions with Mr. Basford were very frank, and I think on both sides in good faith. We met on Monday afternoon, May 5, at 5 o'clock, and I think all of us there at that meeting were impressed with his sense of urgency in trying to get this thing resolved for us, either based on the dummy comparison which we have gone through and/or an interpretation of the bill itself in a general sense, and what those words meant.

Senator Austin: What I understand you to say is that Mr. Faulkner advised that a ruling would be forthcoming; that you made representations pursuant to obtaining your ruling; that you had a good meeting with Mr. Basford but no ruling, until Mr. Cullen made his public statement that 80 per cent would be his ruling?

Mr. LaRue: That is right.

Senator Austin: He then being the Minister of National Revenue?

Mr. LaRue: Yes, that is right.

Senator Austin: Your bill of complaint basically is delay affecting your business planning?

Mr. LaRue: Absolutely.

Senator Austin: But no misrepresentation by a minister, and no misleading of you?

Mr. LaRue: This is the English language—"The need be no mystery or uncertainty as to how this clause is to be interpreted and administered". I say there was considerable mystery and uncertainty. We could never get at the fact. Not until nine weeks before the bill was to go into effect—and that date remained on it—did we know with certainty whether we agreed with what Mr. Cullen announced or what the criteria were going to be.

Senator Austin: You have read the whole statement and I am prepared to leave it there.

Mr. Andison: If I may, could I just add one comment? Certainly the word "misrepresentation" is not appropriate to the circumstances at all, Senator Austin, but when we met with the officials that day, and with Mr. Basford, I think we were entitled to go away from those meetings

with it clear in our minds that the effort being made on both parts was to administer the law as it was written, and that an honest effort was being made on both sides to arrive at a fair and reasonable legal interpretation of the statute. Based on our own examination of the problem, we felt that the area that was being discussed was appropriate. I think it is quite clear—at least, it is quite clear in my mind—that the test that was subsequently to be met does not bear any relationship to a legal interpretation of that clause.

Senator Cook: Every citizen is entitled to have certainty in the law, whatever it is, as far as it is possible to obtain it.

Mr. LaRue: In this quotation Mr. Faulkner goes on to say that there is a well established process of appeal to the courts, and there had to be some room there for that in case we disagreed.

The Chairman: You know, Senator Cook, I learned this very early in the practice of law. One day I was feeling very happy. My job had been to write an opinion on whether an appeal should be taken from the Court of Appeal of Ontario to the Supreme Court of Canada. I wrote an opinion advising on taking an appeal, so when the Supreme Court of Canada a judgment in line with the opinion I had expressed I was feeling pretty good. I remember running into an old-time lawyer in Toronto who said, "What makes you look so happy this morning?" I said, "The Supreme Court of Canada just said I was right." He said, "Young man, remember this. Nobody is ever right as a matter of law. What you should say is that the court upheld your view of the law."

Senator Walker: Touché!

The Chairman: I think this is the position Mr. Andison is attempting to take. He knows what is right and what is wrong here. The question is, what view of the law should prevail? We can argue until Doomsday, but everyone may have a different view on that. The witnesses here this morning are discussing it from the point of view of what went on and that they have been hurt. This is something we have to decide if we are thinking in terms of making any change in the provisions of the bill. But let us stay away from whether it is right or wrong.

Senator Walker: Senator Austin, is it all right if I ask a question?

Senator Austin: Yes, it is.

Senator Walker: It is just to clear up this matter. Mr. Andison did it partially and very well. You had this series of meetings, the last one was a very pleasant one and you were almost *ad idem*, weren't you, with the representatives of the department?

Mr. Andison: We certainly thought we were both in the same ball park.

Senator Walker: So from that day until you saw the press release from Mr. Cullen you did not have an opportunity to see Mr. Cullen or anyone else, is that correct?

Mr. Andison: That is correct.

The Chairman: I think the witnesses said Mr. Cullen refused to make an appointment.

Senator Walker: That is right.

Mr. Andison: Mr. LaRue spoke to him on the telephone.

Senator Walker: Is that one of the things you are objecting to?

Mr. LaRue: Not being able to get at a specific interpretation of the bill.

Senator Walker: So as far as the interpretation of the ruling that has now been made by Mr. Cullen is concerned, you have never at any time had the opportunity to discuss that with him?

Mr. LaRue: Yes, we discussed it with him afterwards.

Senator Walker: But up to the time of the ruling?

Mr. LaRue: No.

Senator Walker: Never.

Mr. LaRue: The first I heard of it, as everyone else did, was in his press release.

Senator Walker: Mr. Andison cleared up the other point. Thank you very much.

Senator Austin: Mr. LaRue, were you, as a businessman, of the opinion that you could have made the 60 per cent content?

Mr. LaRue: I did not know the specific criteria under the so-called 60 per cent, which was the rumour out early in the fall—I think it came out in Richard Gwyn's column—so I cannot say whether we would or would not.

Senator Austin: It would have depended upon how it was broken down?

Mr. LaRue: The specific criteria, the list of 12 or 13 criteria by which the difference would be judged.

Senator Austin: It seems to me that the criteria, in my view of this particular issue, relate to the question of dumping which the minister has spoken of us about. You have made it clear that *Time* was prepared to become Canadian controlled under the act and was prepared to do everything it could do, except that you could not operate the quality of periodical which you believe should bear the name «*Time*» with an 80 per cent «not substantially the same as» rule.

Yesterday we had witnesses from *Maclean's Magazine* who told us that they were of the view that with a 60 per cent rule, many periodicals would come into Canada...

Senator Walker: What is the question, Mr. Chairman? Is this a question or a speech?

Senator Austin: I am explaining a point of view, Senator Walker, and I am going to ask Mr. LaRue to comment on it.

The Chairman: Senator Walker, —

Senator Walker: Yes, my lord. Excuse me, Mr. Chairman.

The Chairman: — so far as Senator Austin is concerned, thus far his question is in order. He is compiling the basis of what he thinks the evidence has been of the witnesses on this point. I assume that he is compiling it, not simply to emphasize what the witness has said, but it is the basis of a question. Is that right?

Senator Walker: I followed the first five minutes of his question but I lost track after that.

Senator Austin: Mr. LaRue, are you having trouble following my question?

Mr. LaRue: No.

Senator Austin: The question requires your understanding a piece of evidence which was given yesterday by Mr. Campbell and Mr. Hodgkinson of *Maclean's* Magazine. Their view was that if the content rule were set at 50 or 60 per cent—when I say the content rule, I mean the «substantially the same as» rule—that a number of Canadian owned periodicals would buy editorial content manufactured abroad and bring it into Canada and, in fact, we would have Canadian owners bringing a good deal of foreign material in, which would be a derogation of the interest of the Canadian publishing industry, Canadian journalists, Canadian papers to publish in Canada. I wonder if you would comment with respect to that kind of argument.

Mr. LaRue: Well, I do not necessarily agree, to begin with, Senator Austin. This, of course, is going on and has been and will continue to go on in the business of news reporting in Canada, through the newspapers, through the CBC network, through the CTV network, where no restrictions by the CRTC regulations are placed upon access to news reports and information. It is unrestricted entirely. The CRTC stays out of the editor's chair, and quite properly. I am not in favour of any content regulation, and when you get into a discussion as between percentages quite frankly and naturally it goes against my grain. Editors work with blue pencils a hell of a lot better than they do with slide rules. They are effective as a result of what they do with their minds and with their pencils and what use they make of the material from wherever they may get it.

What we have said—and I am not trying to avoid your question, sir, or be indirect at all—is that we believe that the interest of this government's policy, as stated . . .

Senator Austin: A policy which you said you support in the sense you support Bill C-58?

Mr. LaRue: That is right—to become Canadian under the law, if you will, is that there would be clear, demonstrable Canadian ownership and control of a publishing enterprise, which heretofore had been foreign owned and controlled.

To make that conversion, certain adjustments have to be made. However, the less authority exercised by the Tax Department over what an editor does, where he gets his material, the better it will be in the interests of journalism and a free press in this country.

I do not believe there is a thundering herd of elephants circling on the outskirts of Buffalo waiting to get over the bridge to make deals with Canadian publishers to republish their magazines in Canada, to get at this beautiful market. I simply do not believe it. There is, indeed, a Canadian authority in that editor's chair here. I think that answers the question and the problem.

Access to foreign material, I think we would find, might even improve some magazines. The restrictions are great with an 80 per cent rule. You cannot publish something that might be of very great interest, and perhaps even need, among the Canadian readership of any magazine here.

That is perhaps an overly long answer. If I have not answered everything, I will be glad to try again.

Senator Austin: I find it informative and helpful. The real concern I have, under this legislation, is for that difference between the 60 and 80 per cent, which seems to have a classic impact on your viability in Canada and the choices between two options, one, that you need a content «substantially the same»—I am using the wrong word when I say «content»—you are using the «substantially the same» concept up to 60 per cent and other Canadian publishers are free to do the same and to compete with you on that basis. In other words, they would bring in material written elsewhere by *The Economist* by *Newsweek*, and the question is, am I correct, that it is because of quality considerations?

Mr. LaRue: I believe so, and unnecessary duplication, and why change something for the sake of change? It removes a good bit of the right an editor should have in running it as is, or changing it, depending on his own particular judgment in the interest of his community here in Canada, his readership. That is a bit of a philosophical answer.

Senator Austin: I have one last question. Mr. Stanley, of Ronalds-Federated, gave evidence here yesterday afternoon that he felt that the withdrawal of *Time* magazine would not result in your advertising revenues going to other periodicals published in Canada. Now, you are an expert publisher in Canada. Can you tell us what you think will be the result of your removal, in advertising terms?

Mr. LaRue: I cannot answer it specifically—nobody can—what will happen or what has happened. We have had some experience in the United States, as well as here, with magazines that have had to cease publishing, as *Time* Canada has. It is awfully difficult to track, as to what happens to it. I don't believe that a negative action such as this is going to have a positive result.

How many ads can one advertiser run in one magazine if he is already advertising? He is not going to add another page necessarily on the same product. Maybe Lloyd Hodgkinson would disagree with me on this but we see no redirection specifically from *Time* magazine to *Maclean's* or to *Saturday Night* or to the smaller magazines. They are not alternatives, necessarily. They can go in the bank, they can go on television or in newspapers. Mr. Findlay knows more about it than I do because he is dealing with it every day. Some of it just may evaporate.

Senator Austin: You are saying it is entirely possible that the total volume of advertising in periodicals could drop?

Mr. LaRue: It could. It hasn't increased substantially in the first few months of this year and ours has dropped off.

Senator Cook: Under the «not less than 50 per cent» —

Mr. LaRue: The «at least half», sir?

Senator Cook: You had something to sell to a Canadian investor?

Mr. LaRue: I beg your pardon?

Senator Cook: Adopting the «not less than 50 per cent» concept, you had something to sell to the Canadian investor?

Mr. LaRue: We felt so, according to the structure of our dummy magazine. With a few more alternations, we thought we had something we could work with, yes.

Senator Cook: Under the 80 per cent rule, did you have anything to sell?

Mr. LaRue: No.

Senator Cook: Would you care to put a difference in dollars between what you had to sell and —

Mr. LaRue: You mean the cost of 80 per cent difference, as compared to «at least half»?

Senator Cook: Not «at least half». You said you had negotiations to sell 75 per cent?

Mr. LaRue: Yes.

Senator Cook: That was under the «not less than 50 per cent,» and you went to 80 per cent. I gather there was no point in trying to make a sale.

Mr. LaRue: No. I think I just expressed some of the reasons why to Senator Austin. We did not believe we could publish a magazine called *Time* under those circumstances.

Senator Cook: Would you care to put a dollar figure on what you lost?

The Chairman: He wants profits, and who doesn't.

Mr. LaRue: That really cannot be determined for a while, senator, because we have had the expense of suspending publication and giving notice of severance to almost our entire staff. We have had to re-adjust our printing contracts, with some cost there; and also the advertising we have lost as compared to last year. As I said, this year is estimated to generate only \$1½ million or so, whereas it was over \$8 million a year ago. There are other expenses, quite frankly, which we have not totalled up in one place, but it has got to be in the millions of dollars, comparing the business we have now to the business we had when there was a *Time Canada*.

Senator Davey: I would like to ask a couple of questions about *Time Canada* as we used to know it. Pursuant to a comment made earlier this morning by Senator Walker, I wonder why you did not publish a French language edition.

Mr. LaRue: Senator Davey, we went through rather extensive research on that eight or nine years ago, not specifically for Canada, frankly, but for the French market in the world, to publish in the second most widely spoken language in the world on an international basis. The upshot of it was that we would have to almost completely duplicate our staff, in other words, to twin what we are now publishing in the English language.

The revenues from subscribers, news stand buyers, as well as from advertisers, were not sufficient to sustain that, other than in a loss position. So, it was not an economically viable proposition. That would have applied to Canada as well as to the continent or anywhere else.

Senator Davey: The only other question I have about *Time Canada*, as we used to know it, is: I have heard various estimates being offered. How much did it cost you to produce the five or six pages of Canadian news, the editorial costs?

Mr. LaRue: Our editorial budget in 1975 was approximately \$1.5 million.

Senator Davey: What did you pay Time Inc. for the U.S. material or for the material which came from the United States? Annually, that is.

Mr. LaRue: Through an agreement with the Department of National Revenue, who would accept this payment as legitimate business expense, as a formula which has been in place for a number of years, we paid 50 cents per annual copy sold.

Senator Davey: So what did that work out to annually?

Mr. LaRue: Close to \$300,000.

Senator Davey: In other words, you paid \$1.5 million for six pages of Canadian content and you paid \$300,000 for 45 pages of other than Canadian content.

Mr. LaRue: That is right.

Senator Davey: So would it be unfair, then, to describe that as a form of editorial dumping by *Time Inc.*?

Mr. LaRue: I think you would also have to accuse the CBC, the CTV and the newspapers of the same thing.

Senator Davey: I am not asking you about them. I am asking you about Time.

Mr. LaRue: No, I don't think it is editorial dumping, because there are no dumping laws pertaining to this particular thing. It is the only way you can get it. The amount of money we pay is in the interests of the Department of National Revenue. In their view, it is set as low as possible in order to leave more over at the end of the year which can be taxed in the form of profit. As far as we are concerned, Senator Davey, it could be doubled or tripled or more closely reflect a proportionate cost based on circulation. It is in the interest of the Department of National Revenue, and thus of the Government of Canada, that that fee be as low as possible. It is an unrealistically low fee for that reason. The Internal Revenue Service, on the other hand, keeps trying to get it up. So perhaps there is some greater wisdom than mine to tell me how that should work. We do not get it for nothing, which we have been accused of time and again inaccurately, and your last article in *Sun*, if I may say so, Senator Davey, was inaccurate in that respect.

The Chairman: Arising out of that, who fixed the amount of \$300,000?

Mr. LaRue: There was an agreement with the Department of National Revenue. Our comptroller, who comes up here from Time Inc., worked it out between the two tax departments.

Senator Davey: In your submission to the Senate committee you have attached the brief you presented to the House of Commons committee. In that you say that you negotiated the sale of 75 per cent of the shares of Time Canada Limited to Canadian purchasers. Is it a fair question to ask who those Canadian purchasers were to have been?

Mr. LaRue: The leading investor was to have been Thomson Newspapers.

Senator Davey: Did it not concern you that Thomson Newspapers have a commanding position in the Canadian

media structure and that this would contribute further to the concentration of media ownership in Canada?

Mr. LaRue: Well, I think to the extent they held shares, the idea, senator, was that they would probably hold just 20 or 25 per cent of the shares and then others across Canada, from the West and with representation from Quebec and Ontario, would own shares as well, as well as our staff. I know they would have been good partners, but they would have owned less than 50 per cent, certainly, of the shares, and the relationship between their newspapers and the investment in the magazine is rather distant, really, in terms of the function. They would be investors and sit on the board. To the extent that they owned shares, they would influence the decisions of Time Canada Ltd., certainly, but I don't know that it would throw them into some dangerous dominant position in the media in the country.

The Chairman: Senator Davey, I have been permitting these questions, but I am not satisfied that they are pertinent. Who the purchaser was is not relevant. He has told you that in their judgment apparently it was a good offer, whatever it was, and I don't think it is pertinent to this inquiry to know what they thought they should have done or what the relationship of the intended purchaser was to other periodicals and newspapers in Canada. It is not pertinent.

Senator Davey: All right, Mr. Chairman, I will take your judgment on this. The brief to the house committee begins:

In the Fall of 1974, the Board of Directors of Time Canada Ltd. decided to seek 75% Canadian ownership.

Is it a fair question to ask what prompted the board of directors of Time Canada Ltd. to move in that direction in the fall of 1974?

The Chairman: I think the witness has already told you.

Senator Davey: I am sorry. I did not hear, if he did.

The Chairman: He did not tell us the names, and it is not important that he should.

Senator Davey: I am asking why the board of directors made that decision in the fall of 1974. Surely, that is a fair question?

The Chairman: I guess they had read your report.

Mr. LaRue: I don't mind answering the question, senator. A certain sense of urgency had crept into the situation in the fall of 1974, Senator Davey. It was apparent that the government was about to act in some way to alter the law under which we have had the right to operate here as a Canadian business. Our Canadian directors, along with myself and the representatives of the company, *Time Inc.*, decided that the best thing for us to do would be to fully meet the conditions of the law in terms of ownership, if we could. We had tried three years previously, following your Senate committee hearings, by asking leading underwriters in Canada to study our business and our situation generally and to come back to us with plans for public ownership. That effort failed for two reasons. I don't want to go on over long, but I want to give you some background which may be pertinent to your question and to our desire to become Canadian owned to some extent, if not to the full extent, three or four years ago. The two reasons were that the market was lousy for public share issues at that time; they were deteriorating rapidly. More important was

that buyers, independently one from the other, were not particularly attracted to the deal. The reason was that the threat was always there, the possibility was always there that the government would amend that tax act in such a way that it would have exactly the effect that it has turned out to have. I was too darned risky. So, unfortunately, we were unable to proceed on that basis. In the fall of 1974 Mr. Faulkner had by that time announced his intention to amend the bill. So we thought the best way to do it was to find partners who, in good faith, would at least enable us to qualify, if they were willing to come together with us. Then later on, perhaps once the whole situation was stabilized, we could then make some of the shares public, which was our interest all along.

Senator Davey: Thank you. Is it possible for someone to rent or obtain your mailing list of subscribers?

Mr. LaRue: No.

Senator Davey: Could a national advertiser or a political party rent it from you?

Mr. LaRue: No.

Senator Davey: Have you tried to sell or did you attempt to sell that mailing list?

Mr. LaRue: We talked to Maclean-Hunter, as Mr. Campbell said yesterday, and one other publisher, to see what the possibilities might be for selling our list as we ceased publishing.

Senator Davey: That was at a time, presumably Mr. LaRue, when you were considering packing up and leaving.

Mr. LaRue: There were several options we had to consider in our responsibilities to the shareholders of Time Inc. Incidentally, I was just a little surprised, frankly, to read that Mr. Campbell was staggered, because the same thing happened about four or five years ago when John Bassett sold the list of *Telegram* to the *Star* for \$10 million. It had happened before, of course, when the *Saturday Evening Post* sold its list to *Look* magazine and then *Look*, in turn, sold the list to *Time Inc.* We had to look into it.

Senator Davey: I can assure you I was not shocked or staggered.

Mr. LaRue: I was just surprised to hear that Mr. Campbell was.

Senator Davey: In your brief to the House of Commons committee on page 9 you say:

Quality is a value judgment. To say that no Canadian newsmagazine on its own hook can possibly afford sufficient world and American coverage of quality is a subjective judgment. But this is our judgment of the matter, and we dare say that of most professional Canadian journalists.

I am sure you have had an opportunity now to see *Maclean's* as a newsmagazine. Do you think it is unprofessional?

Mr. LaRue: I will not comment. I do not think it is appropriate for me, senator, if I may suggest, to comment on the qualities of *Maclean's*, unless the Chairman insists that I do.

Senator Davey: He will not insist, and neither will I, but it seems to me that according to this statement it was your

judgment that there could not be a Canadian newsmagazine of quality. I just wondered if you stand by that statement.

Mr. LaRue: I stand by the statement, certainly.

Senator Davey: Then I draw my conclusion from that of what you think of *Maclean's*.

Yesterday, when Maclean-Hunter were here dealing with this point, there was a discussion of whether or not other Canadian publishing companies could start a Canadian newsmagazine in competition with *Maclean's*. It was either Mr. Campbell or Mr. Hodgkinson, I am not sure which, who said that he thought it was quite possible, saying that the Thomson newspapers, Southam and the Toronto Star—those were the three mentioned—all had the facilities to start a Canadian newsmagazine. Would you agree with that?

Mr. LaRue: They certainly have the financial resources, yes. Whether they have the will or the desire, I don't know.

Senator Davey: But they could; it would be possible for them.

Mr. LaRue: They have enough money to do it, I suspect, if they were willing to commit the large sums it would probably take.

Senator Davey: If the chairman will permit, I have a couple of questions about *Time* magazine as we are now receiving it in Canada. You made a great point in the brief that you presented to the house, and at other times and other places, about the fact that jobs would be lost because of the disappearance of *Time* Canada, as we used to know it, yet you are still printing in Canada.

Mr. LaRue: Right.

Senator Davey: Why are you still printing in Canada?

Mr. LaRue: In order to continue to serve our advertisers.

Senator Davey: What do you mean by that?

Mr. LaRue: To sell advertising, even on a non-deductible basis, one requirement is that you print the magazine within the country.

Senator Davey: So the reason you are printing in Canada is simply so that you can keep on selling advertising in Canada?

Mr. LaRue: It is one of the main reasons, yes.

Senator Cook: It is one requirement of whom? You say it is one requirement.

Mr. LaRue: Customs and tariff regulations.

Senator Davey: I think more than five per cent —

Mr. LaRue: We are restricted to five per cent, if we import. We are also, and have been for years, extremely satisfied with the quality of service we get from Ronalds-Federated, who have been our printers since 1962.

Senator Davey: But the fact is, Mr. LaRue, is it not, that this particular edition of *Time*, the current one, which I bought at the airport yesterday, could not be circulated in Canada if it had not been printed in Canada?

Mr. LaRue: That is right.

Senator Davey: There is also, I would imagine, a postal advantage. Would it not be cheaper to mail a magazine in Canada than to mail it in the United States?

Mr. LaRue: The Post Office Department recently raised their rates for imported magazines, so there is a postal advantage, yes.

Senator Davey: Why must a subscriber to *Time* pay \$30 a year now, when that person could subscribe to *Newseek* for only \$18 a year? Why is it \$12 more expensive?

Mr. LaRue: The main reason is that they are two separate publishing companies arriving at their prices separately and distinctly from one another, taking their own decisions. It is much more costly now for us to provide the service of *Time* as a weekly news magazine than it was for *Time* Canada, and what I have testified to before, in terms of the erosion of our revenues as a result of this action, is evidence of that. *Time*, U.S. to the United States subscriber, supported by over \$100 million in advertising revenues each year, is \$26. The fact that *Time* U.S. in Canada is produced in Canada on a relatively short print run now, and getting shorter all the time, is a very practical reason.

Senator Davey: Why can your chief competitor circulate their magazine for only \$18?

Mr. LaRue: You will have to ask them. I haven't talked to them. They may raise their price. I don't know. We sometimes tend to lead in pricing in our industry.

Senator Davey: *Time* recently ran a full-page advertisement in the *Globe and Mail* addressed to the business community, which said in part:

Time's circulation rate base in Canada is now 200,000, but the circulate is still almost 400,000.

So really in terms of cost efficiency, which advertisers look at, *Time* has probably never been a better buy than it is now. Is that a fair statement?

Mr. LaRue: A good buy, yes.

Senator Davey: It goes on to say:

While the circulation is seeking its new level.

The Chairman: In other words, are we to conclude from that that it is your intention to drop your circulation to 200,000 in Canada?

Mr. LaRue: I don't know exactly where it will end up, but to guarantee the advertiser a circulation base on which rates are based we decided that 200,000 would be the minimum. So as not to confuse the advertiser further, rather than scale our rates down weekly or monthly as the circulation dropped, it was much simpler to establish a firm price to which we would hold for the balance of the period that the price is effective.

Senator Davey: I am sure you are familiar with this full page ad which has appeared in *Marketing* on a number of occasions. In it I see that a full page four-colour advertisement in *Time* as of January 1, 1976, was \$9,685; as of March 15, 1976, that rate dropped to \$3,535, and there are comparable decreases for full page black and white and one column black and white. The rates as of March 15 are predicated upon a circulation of about 200,000.

Mr. LaRue: On 200,000.

Senator Davey: On 200,000?

Mr. LaRue: Based on 200,000.

Senator Davey: So 200,00 will be the desired circulation you will be after, is that correct?

Mr. LaRue: It will be the circulation that we will not drop below.

Senator Davey: Then why do you say in this advertisement that it will seek its new level?

Mr. LaRue: Because it is declining as a result of our pricing, which we discussed earlier.

Senator Cook: You guarantee this 200,000?

Mr. LaRue: Yes. The advertisers are receiving a bonus circulation at this time.

Senator Smith (Colchester): Are you suggesting it is your intent and desire to reduce the circulation to 200,000, or are you saying that in view of all the circumstances that you feel are likely to exist, and which now exist, it will naturally find that level?

Mr. LaRue: This is the first time we have gone through this. In selecting 200,000 we tried to do it on a very conservative basis. I frankly hope it does not get that low. However, we don't know. We will be able to tell a lot more about it come this fall. It is dropping, but it may not drop all the way to 200,000; it could be 300,000 or 275,000.

Senator Smith (Colchester): Would it be correct to say that you sell all you can find a market for?

The Chairman: I would expect so.

Senator Davey: Let us just pursue that. I am not sure that is right. I don't accept that statement necessarily. *Time Canada*, as it has now become, will be a more profitable magazine—if this is not correct, please tell me—with a circulation of 200,000 than with a circulation of 400,000. Is that not correct?

Mr. LaRue: That is not correct.

Senator Davey: It is not correct?

Mr. LaRue: It is not correct.

Senator Davey: Then why are you seeking a level of 200,000? It says in the advertisement you are seeking it.

Senator Smith (Colchester): It does not say the company is seeking it; it says the magazine is seeking it.

Mr. LaRue: I am not quite sure, Senator Davey, that I understand your question.

Senator Davey: This advertisement of April 21, is a full page ad in the business section of the *Globe and Mail*. It says:

Time's circulation rate base in Canada is now 200,000 but the circulation is still almost 400,000, and while the circulation is seeking its new level advertisers will receive a handsome bonus.

I do not understand why you are seeking a new level.

The Chairman: I think he has answered that question already. He said their advertising rates are based on a guarantee of a minimum circulation of 200,000.

Mr. LaRue: The circulation will seek its own level due to pricing.

Senator Cook: What has that got to do with the bill?

The Chairman: I don't know. I am just seeing how far Senator Davey is going to go.

Senator Davey: If the advertising remains at 400,000, then you would increase your advertising rates again, would you?

Mr. LaRue: That is right.

Senator Davey: What would you do if circulation fell below 200,000?

The Chairman: You don't have to answer the question unless you want to.

Mr. LaRue: I haven't thought about it because it won't. I don't believe it will.

Senator Davey: I have one last question, Mr. Chairman. Yesterday my friend Senator Hays and this morning my friend Senator Lang both, in asking questions about «not substantially the same as,» made references to Canadian content. It seems to me that your brief buttresses that misconception, because you spend much of your time in your brief to the House of Commons committee talking about Canadian content. Really what we are talking about has nothing to do with Canadian content, has it?

Mr. LaRue: No, sir, it doesn't, and I studiously avoid using that term.

Senator Davey: I realize that.

Mr. LaRue: There was a lot of confusion on that last spring, a year ago.

Senator Davey: I understand that, Mr. LaRue. I only raised the point because some of my colleagues on this committee still seem to be confused. Thank you, Mr. Chairman.

The Chairman: Any other questions?

Senator Smith (Colchester): I would like to have Mr. LaRue answer the question I asked, in view of Senator Davey's contention or suggestion that they did not want to sell all they could. Is it a fact that you will try to sell as many copies in Canada as you can, or are you consciously making an effort to reduce the level?

Mr. LaRue: We are consciously making an effort to reduce the level to a manageable one, senator. I wish I could give you a precise number but I cannot because we are, again, going through this as a new experience. It will balance as between the expense of promotion, in maintaining a certain level, which any magazine must do to sell itself, vis-à-vis the costs of doing business here. I frankly cannot say, with any certainty, how it is going to come out. Much will have to do with the advertiser response as well as the response from the reader at this higher rate. My guess is that it may not reach 200,000.

Senator Lang: Does *Time Canada* have any subsidiary publishing companies in any country other than Canada?

Mr. LaRue: Than Canada?

Senator Lang: Yes.

Mr. LaRue: Yes.

Senator Lang: Where?

Mr. LaRue: Japan, Australia, New Zealand, Hong Kong, Paris, Amsterdam, the U.K.

Senator Lang: Do they publish in the English language?

Mr. LaRue: Yes, sir.

Senator Lang: All in the English language?

Mr. LaRue: Yes, sir. The magazine is ostensibly the same worldwide.

Senator Lang: Are there any rules in any of these other countries comparable to this legislation?

Mr. LaRue: Not that I am aware of, sir.

Senator McElman: If *Time Canada*, as now produced, were to drop to the level of 225,000, which is above your projected figure, would it still continue to print and publish in Canada?

The Chairman: That is a hypothetical question. Do you want to answer it?

Mr. LaRue: Yes. Certainly we would want to continue to print in Canada, if we possibly could. Some of that decision would have to be arrived at based on the advertising we would generate.

The Chairman: Based on dollars?

Mr. LaRue: Yes.

Senator McElman: Looking at the level of revenue and, assumedly, profit that *Time* will now produce for you, I would refer to your earlier statements of your efforts to retain 75 per cent Canadian ownership and the level of investment return that the investor would wish to have before coming in. I do not want to be unfair, but could you give us a bottom level figure at which you would expect the investors to come in?

Mr. LaRue: I cannot, senator, now because the conditions are changed. How much the company was worth last summer—well, one had to guess what their future would be like and that was pretty hard to do. I really cannot, in all honesty, answer your question. The expenses of doing what we very much wanted to do in compliance with the law were considerable. There has been a substantial increase in our editorial staff here, for example, from what it was earlier in the year. I mentioned the costs of fully typesetting the magazine here and other things that inevitably would come along that would require large expenditures. That, in itself, would reduce the pro forma, if you will, profit somewhat. I really cannot tell you what it would be.

Senator McElman: On the basis that you were then dickering with the prospective investors, you had then an operation that was profitable enough that you had no doubt of getting investors; in other words, you were able to show them a level of return on investment that was attractive to them?

Mr. LaRue: That is right.

Senator McElman: On that basis, do you think you could today interest prospective investors?

Mr. LaRue: I doubt it, but I do not know enough. We have to have more experience.

Senator McElman: Have you tried?

Mr. LaRue: No, sir.

Senator McElman: You have not tried on this new basis?

Mr. LaRue: No, I have not a pro forma on this new basis, as yet. If I may add one further thing: What would be the purpose? We would satisfy all aspects of section 19 except the content regulation. In the eyes of the law we would be no more Canadian than we would be without that. We would not qualify as a Canadian publication and our advertisers would not be able to deduct the cost of advertising. We would be a 75 per cent Canadian-owned enterprise, but we would not have the rights of a total Canadian publishing enterprise.

Senator McElman: I would simply say in reply that it would become more Canadian. However, that is aside from the point. On the matter of the 80 per cent difference requirement, which is the principal bone of contention in the discussion, although you were not here in 1965 you are completely familiar with the principles established in the law of 1965.

Mr. LaRue: Yes, section 12(a) as it then was.

Senator McElman: You were then excepted from the principle of that law; you were specifically excepted from the principle of the law.

The Chairman: No, they were not specifically excepted. There was a general exemption which, because of their position, they enjoyed.

Senator McElman: That is what I am saying; they were exempted.

The Chairman: But you said specifically exempted.

Senator McElman: I did not mean that *Time* was specifically and solely exempted from the law.

The Chairman: What did you mean when you said, «specially»?

Senator McElman: I did not say «specially».

The Chairman: You did.

Senator McElman: No, I said, «specifically.»

The Chairman: What is the difference?

Senator McElman: It is a different word. However, I do not wish to enter into an argument on semantics with the chairman.

The Chairman: No, but I am just trying to determine how relevant the question is. The section speaks for itself. You can interpret it any way you like. I am trying to keep some relevance in the questions.

Senator McElman: I appreciate that. I shall try to continue. The principle established in 1965 with respect to «not substantially the same» applied to most periodicals, but there was an exception made, and that exception included *Time Canada*.

Mr. LaRue: Subsection (2).

Senator McElman: Is that, Mr. Chairman, more in keeping with the situation—the exception included *Time Canada*, is that accurate?

The Chairman: The grandfather clause, you are talking about.

Senator McElman: I am talking about the exception that was made in the law, whether it was grandfather or grandmother, but it did include *Time Canada*.

The Chairman: It extended to *Time Canada*, yes, and it extended to *Reader's Digest*.

Senator McElman: So *Time Canada* was familiar with the intent and purpose of the Canadian Parliament which passed the law and the Canadian government of the day, and it was fully familiar with the intent and purpose of the legislation. Is that correct?

Mr. LaRue: Yes.

Senator McElman: That was more than 10 years ago. Although it met the exception clause, what efforts did *Time Canada* make to meet the intent and purpose of the Canadian Parliament so well expressed in the *Debates* of that day which I am sure *Time Canada* became familiar with?

Mr. LaRue: Well, my opinion on that, senator, is that subsection (2) was also part of the intent of the government and that the continuing right that *Time Canada* enjoyed as a result was supported by the governments of the day and successive government up until this time. I cannot imagine that the government at that time would include subsection (2) if it did not intend to do so along with the other subsections in the act, and, as far as *Time Canada* is concerned, we have fully lived up to our responsibilities under the law, and have been, I believe, good corporate citizens in line with that in living here and working here and supplying an important service to Canadians. When it became apparent, as I think I said earlier, that the law would be amended in some way, back in the fall of 1974, we decided with our Canadian directors on our board—very much in the decision-making and policy-making process—that it was time to try something else, having tried three or four years ago, as I hope I explained to Senator Davey earlier, to sell stock publicly, and we found we were unable to do so.

The Chairman: Senator, I don't like to interrupt your questions, but section 19(2) provides an exemption on the basis that applied to magazines that were operating at a certain period of time. It says:

An issue or edition of an issue of any newspaper or periodical that is edited in whole or in part in Canada and printed and published in Canada and that was not on April 26, 1965 a Canadian newspaper or periodical shall be deemed, for the purposes of subsection (1), not to be an issue of a non-Canadian newspaper or periodical if —

and so on. So there is an exemption from the provisions of section 19. Now, the position of *Time* would qualify it because it was in existence during that period of time. So when you keep asking questions about whether they complied with all the provisions of section 19, they were exempted from the provisions of section 19, and I cannot see the relevance of the question. If you think there is a relevance, then go ahead and ask.

Senator McElman: No, Mr. Chairman, I was endeavouring to take the witness in a given direction, but obviously it is not an acceptable approach, so I shall cease and desist.

The Chairman: I have not made a ruling.

Senator McElman: I appreciate that, Mr. Chairman, you have made no rulings this morning. I will leave that area entirely.

If *Time Canada*, at its 400,000 level, were to be distributed in the United States, what would happen to its copyright protection under United States law?

Mr. LaRue: Well, the manufactured products copyright is what you are referring to. What you are referring to is limited to 1,500 copies, if they are printed here; otherwise you lose your copyright.

Senator McElman: Yes. The same thing would happen to *Maclean's* magazine, would it not?

Mr. LaRue: No, I don't think so. Because I think the manufacturers clause applies to American, U.S. authors.

The Chairman: This is a question of law.

Mr. LaRue: Having their books printed abroad and shipping them back into the United States. Incidentally, there is a provision in the U.S. law which *Time Inc.* has been working on for many years to try to get removed. It is economic imperialism there that we don't like.

Senator McElman: That is what I wanted to get to, Mr. LaRue.

Mr. LaRue: Notwithstanding the discomfort we have had in the last year or so, senator, with this situation, it is still the policy of *Time Inc.* as far as I know, to do everything it can to see that that is removed and that Canadian printers get a fair shake.

Senator McElman: Thank you.

Mr. LaRue: That is not *Time Inc.* policy; that is Steven LaRue speaking from his knowledge, which is perhaps not up to date. But that has been the corporation's policy. We don't like it any more than I am sure you do.

Senator Davey: I would like to inquire why the international edition of *Time* which we have been receiving for six or eight weeks now, including the current issue, contains virtually no news of Canada. Is there nothing happening in Canada which is of international interest?

Mr. LaRue: Mr. Scott is more expert at that than I am, as he is our correspondent in Ottawa, but this is now *Time* the weekly newsmagazine printed here in Canada, and the reporting of Canada is being done and the editing, of course, from Canada is being done entirely in New York. It is no longer in Montreal, and the judgment on reporting events in Canada will have to stand the test that all other places around the world do in the editor's mind. It is his choice.

Senator Davey: Surely there must be the odd thing happening in Canada, the odd week, which deserves recognition in *Time*?

Mr. LaRue: I really have difficulty speaking to that, because I am not the editor of *Time*. If Mr. Scott would like to say something on that point he is certainly welcome to. There just may have been nothing of great import in the editor's mind happening in Canada in that period of time, and there may have been no other reason.

The Chairman: It is a judgment decision, is it not?

Mr. LaRue: That is what the editor's job is.

Senator Cook: We are hardly in a position to complain about it now, are we?

Senator Austin: Mr. LaRue, I had one last question relating to the establishment, or my understanding at least, of your policy, should this bill not pass this session of Parliament, in which case, Mr. LaRue, we would be back in the law as it now stands. You would then be allowed to operate as you have always operated since 1965. Would you come back in?

Mr. LaRue: One of the reasons we made the decision to remain on this very different basis we have been talking about, the reduction of circulation and so forth and trying not to vacate Canada, is that perhaps at some point there might be a change. I don't know what it would be or when it would be, and one factor could certainly be the fact that the bill did not pass. I suspect the first thing we would do, Senator Austin, would be to try to seek again, with some certainty, a definition of the content clause.

The Chairman: Maybe you will take the question under advisement, and if the bill does not pass you might answer Senator Austin's question. It certainly is pretty hypothetical, but if you think it is relevant, senator, I will not rule against it.

Mr. LaRue: I don't want to avoid the question.

Senator Austin: In this respect, I would like to know whether there is any possibility of *Time* resuming its previous publication practice, or if, regardless of whether the bill passes or not, Mr. Chairman, that practice is over and *Time* is basically on a different course in Canada.

The Chairman: I understood the witness to say that he could not answer that question at this time.

Mr. LaRue: It is difficult to answer because of the conditions which might prevail at that time. Would we go back into what we have been in the last few years or so? I think it would only be with some reluctance that we would. We do not have the staff, to begin with.

Senator McElman: Mr. Chairman, I would like the opinion, comment or whatever, from Mr. LaRue on a statement in the *Debates of the Senate* by one of the most learned and respected journalists in Canada, the late Senator Grattan O'Leary. He said in the *Debates* of 1965:

A Canadian edition, so-called, is a periodical whose editorial content is lifted in whole or in large part, from a parent edition outside Canada, and then used in Canada to attract Canadian advertisement. In other words, outside or foreign editorial matter is dumped into Canada—in fact, is dumped into Canada in a way that adds up to the most vicious form of dumping.

That was Senator Grattan O'Leary.

Would Mr. LaRue give us his comment on such a statement?

Mr. LaRue: I would make a correction, if the late senator were here, so far as what he said, in that our situation, as we have determined it in our policy in the last year and a half, is that there would not be a parent. *Time Canada Ltd* and the new *Time Canada* would be independent, and the services derived, editorial or otherwise, from *Time Inc.* or any other place, any other publisher outside of Canada, would be on an arm's length and an independent basis. The editor, the publisher here in Canada would have the author-

ity granted to him by the board of directors on a 75-25 per cent ownership basis. So there would not be a parent as there is now.

Senator McElman: That is as it would have applied under your new proposition?

The Chairman: That is right.

Senator McElman: Could you comment on that quotation as it applied to your publication, let us say, from 1965 to 1975?

Mr. LaRue: Well, we operated our business in good faith under section 12(a), then section 19 of the tax act, which is duly passed by Parliament, and certainly there was a parent relationship. The ownership of *Time Canada* as a subsidiary of *Time Inc.* was there for all to see. The financial statements and whatnot are made public by law each year. That was the way it was, the way it was to be, as I described, an independent Canadian publishing company, with an arm's-length arrangement.

Senator McElman: Would you agree with me that it is the usual purpose of a good corporate citizen not merely to meet the law, the strict terms of the law, within a host country, but also the expressed opinion of the elected representatives of the people?

The Chairman: Senator McElman, I do not think that question is relevant. You want a statement from this witness as to what he thinks a good corporate citizen would do?

Senator McElman: I withdraw, Mr. Chairman. Thank you.

The Chairman: Any other question?

We shall meet again next Wednesday. If the anti-inflation amendments are sent to the committee before that time, our first consideration will be to deal with that. I thought the way in which we would deal with them would be that our advisor, who will be here at 9.30, would explain in a very clear and succinct manner the scope and effect of the amendments. The officers and officials of the department will be here and available for questions. When we finish the anti-inflation amendments we will revert to Bill C-58 for the rest of next Wednesday. Also, on Thursday morning we have confirmed an appointment with the minister, the Honourable Mr. Faulkner, for 9.30, with no time limit except the adjournment time at 12.30.

So that is our course of business. We still have outstanding the continuance of the textile study which we are doing, and it may be that the following week we will get back into that.

Senator Davey: Mr. Chairman, will there be any other witnesses on Bill C-58 next week besides the minister?

The Chairman: Yes. What I will do is check with the number of people who have asked to be present and see which ones are available to appear. In due course, the members of the committee will be notified and you can find out by asking me or the clerk.

Senator Cook: In broad terms, Mr. Chairman, do we know who they are?

The Chairman: I have been trying to deal with the print part of the bill first, and if *Saturday Night* are available we will certainly invite them next Wednesday. We may switch

into advertisers, and then we will get into the broadcast provisions.

The committee adjourned.

APPENDIX "A"

Extracts from a sample edition of the new bi-monthly format of

Maclean's magazine issued on October 6, 1975

Questions asked of the publisher, Mr. Lloyd M. Hodgkinson.

lane, people like that. They showed us everything. What to do.»

«How is it done?

How is an inward-looking, nationalistic, general interest monthly converted to a fast-moving newsmagazine with world ambitions; a magazine that must appear every second Monday?

Simple.

Double the editorial staff: writers, editors, columnists, artists.

Open permanent bureaus in Washington D.C., London, U.K., Ottawa, Montreal, Vancouver, Edmonton.

Scout and hire the best correspondents and stringers in these key locations: New York, Paris, Tokyo, Regina, Winnipeg, Quebec City, Fredericton, Halifax, Charlottetown and St. John's.»

«Arrange to buy the world's best news services: The Associated Press (AP) wire, the Reuters service, the Dow-Jones financial wire; plus services providing access to the full editorial content of world-class newspapers; plus the United Press International (UPI) Photo Service; plus Canadian Press; and so on.»

«Count and utilize your blessings. Over the years Maclean-Hunter has built a formidable international communications empire. (Its size and scope may well astonish you. Its size and scope often astonishes us). In Canada, we're involved in 101 various business, technical consumer and special interest magazines and newspapers, including the *Le Maclean*, *Chatelaine*, *Financial Post* and *The Medical Post*; five radio stations, a TV station, cable TV and programming services. In England, we produce 12 business and technical magazines. In the U.S. we have eight business journals and three cable TV systems. In South Africa, four magazines and six marketing services. In Europe, we co-produce six media publications in the key cities of Paris, Frankfurt, Milan, Vienna. And, as of 1975, we're in the publishing business in Brazil.

We don't claim this communications network could or would be converted to instant and total use for *Macleans*' newsmagazine. But we do claim an enormous advantage: presence. We're good corporate citizens of those countries. We have dozens of highly trained writers and editors out there. Each is armed with contacts, know-how and the native language. We count these blessings and will not hesitate to use them when needed.

Is this system truly global? No it isn't. Is it as sophisticated as we'd like it to be?

No again.

But it's a damn good start.»

«Q. That you've exploited a situation that's been handed to you on a platter.

A. Guilty.»

«Q. You admit it?

A. Certainly. Any business—and make no mistake, magazine publishing is a business—a strange one with special responsibilities, but a business. Any business that doesn't take advantage of opportunities ought to go home to mother.»

«Q. Is *Macleans* good enough, big enough, skilled enough to replace *Time* magazine?

A. We're not replacing *Time* magazine. We're competing against it. And we've got one great edge over any foreign-owned publication, especially those only printed here. We can dig out pieces they can't touch. Can you imagine *Time* or *Reader's Digest* printing, for instance, that feature we ran on James Richardson? No way. They're guests here. They've got to be careful. They can't afford to offend the government because the government, in effect, holds their franchise. We are not guests. We live here.»

«Q. What else?

A. Over the past four years we've increased and tightened our articles. Departmentalized our subjects. Introduced continuous page sequences. Introduced the Metro Toronto and BC news sections, which taught us how to deal with late deadlines. And we've been to school.»

«Q. I beg your pardon?

A. This is a tough business. It kills dinosaurs. It killed *Life*, *Look*, *The Saturday Evening Post*, *Colliers*. It killed them because they didn't change. Couldn't or wouldn't specialize. Now if you're going to specialize in news, you'd better know what you're doing. You'd better know the why, what, where and when of news gathering. And if you want to go world-class, you'd better go to school with the best: *Paris Match*, *Der Spiegel*, *Newsweek*. . . .»

«Q. What did you do? Phone them up and say hello, this is *Macleans*, we want to enroll in your extension course in the world-class news dodge?

A. If you were as smart about your homework as you are in the tone of your questions, you'd know we have publishing businesses in France, Germany and the U.S. We have good friends there. Those friends turned out to be better friends than we dreamed. *Paris Match*, *Der Spiegel* and *Newsweek* threw open their doors to our senior editorial people: Newman, Morris, Macfar-

APPENDIX "B"

THE GALLUP REPORT, JANUARY 25, 1975

Four-in-ten (41%) adults believe that Canadian magazine Publishers should be given some form of protection or assistance by the government, while 36% do not. A relatively high 23% are unsure about this issue.

Regions differ considerably on this issue. In the Atlantic Provinces, only 27% would support government help for Canadian magazines. This compares to 47% in Quebec, 43% in British Columbia, 41% in Ontario and 34% on the Prairies.

When those who approve aid were asked what should be done, few had specific suggestions. The largest group (12% of all those interviewed) wanted lower taxation or subsidies for the publishers, while 10% just said give «assistance» or «help». Only one per cent of all respondents specified controls or restrictions on Time and on Reader's Digest, while another 4% would impose duties or reduce privileges of foreign publications. Most, however, were unable to volunteer a suggestion.

During the first week of December, 1,000 Canadian adults were questioned personally in their homes. A

sample of this size is accurate within 4 percentage points, 19 in 20 times.

The question asked was:

«SHOULD CANADIAN MAGAZINE PUBLISHERS BE GIVEN SOME FORM OF PROTECTION OR ASSISTANCE BY THE GOVERNMENT OR NOT?»

	Should	Should not	Don't know
National	41%	36%	23%
Region			
Atlantic	27	50	23
Quebec	47	23	30
Ontario	41	39	20
Prairies	34	42	24
British Columbia	43	37	20



Government
Publications

FIRST SESSION—THIRTIETH PARLIAMENT
1974-76

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
**BANKING, TRADE AND
COMMERCE**

The Honourable **SALTER A. HAYDEN**, *Chairman*

Issue No. 86

WEDNESDAY, MAY 19, 1976

**Complete Proceedings on Bill C-89, intituled:
"An Act to amend the Anti-Inflation Act"**

REPORT OF THE COMMITTEE

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Austin	Lafond
Barrow	Laird
Baubien	Lang
Buckwold	Macnaughton
Connolly	Manning
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
*Flynn	Smith
Haig	(Colchester)
Hayden	Sullivan
Hays	Walker—(20)

Ex officio members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Tuesday, May 18, 1976.

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Stanbury, seconded by the Honourable Senator Greene, P.C., for the second reading of the Bill C-89, intituled: "An Act to amend the Anti-Inflation Act".

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative, on division.

The Bill was then read the second time, on division.

The Honourable Senator Stanbury moved, seconded by the Honourable Senator Goldenberg, that the Bill be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—

Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, May 19, 1976

(114)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m.

Subject: *Bill C-89 "An Act to amend the Anti-Inflation Act"*.

Present: The Honourable Senators Hayden (*Chairman*), Austin, Beaubien, Buckwold, Cook, Desruisseaux, Flynn, Lafond, Laird, Lang, Macnaughton, Manning, McIlraith, Molson, Perrault, Smith (*Colchester*), Sullivan and Walker. (18)

In Attendance: Messrs. C. A. Poissant, C.A. and William J. L. Swirsky, C.A., Advisors to the Committee.

WITNESSES:

Mr. F. E. Gibson, Chief Legislative Counsel, Dept. of Justice;

Mr. F. R. Drummie, Special Advisor to the Deputy Minister, Dept. of Finance;

Mr. Gérard Coulombe, Tax Policy Branch;

Mr. Donald Yeomans, Associate Executive Director, Anti-Inflation Board; and

Mr. Donald D. Tansley, Administrator under the Anti-Inflation Act.

Following discussion, and upon motion duly put, it was *Resolved* to report the said Bill without amendment.

At 10:50 a.m., the Committee proceeded to the next order of business.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

Report of the Committee

Wednesday, May 19, 1976

The Standing Senate Committee on Banking, Trade and Commerce to which was referred Bill C-89, intituled: "An Act to amend the Anti-Inflation Act", has, in obedience to the order of reference of Tuesday, May 18, 1976, examined the said Bill and now reports the same without amendment.

Respectfully submitted,

Salter A. Hayden,
Chairman.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, May 19, 1976

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-89, to amend the Anti-Inflation Act, met this day at 9.30 a.m. to give consideration to the bill.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: The first item on the agenda this morning, honourable senators, is Bill C-89, an act to amend the Anti-Inflation Act. We have our special adviser, Albert Poissant, with us, and he will give to the committee the highlights of the bill. After that, witnesses from the various departments concerned with the subject matter of the bill will appear before us. We have Mr. Drummie and Mr. Coulombe of the Department of Finance. We have Mr. Gibson, whom we have seen many times before and who is Chief Legislative Counsel, Department of Justice, and we have the Anti-Inflation Board representatives, Mr. Yeomans, the Associate Executive Director, and Mr. Tansley, the Administrator.

Mr. Poissant, would you give us the highlights of the bill, please?

Mr. C. A. Poissant, Special Adviser to the Committee: Yes, Mr. Chairman. You will remember that last year when we were studying Bill C-73 most of the information we wanted to look at was contained in the regulations, which we did not have at the time your committee was studying the bill. The regulations have since been issued, and so have the guidelines.

Bill C-89 now makes technical amendments to Bill C-73. I understand you have been given two sheets indicating amendments, but there are also three important amendments and one of them is shown on the smaller sheet you are now receiving.

You will note that the way it was before, when it was a question of compensation it was referred to the employer, and when it was a question of supply or prices it was referred to the supplier. At first, only the Board, which was referring the case back to the administrator for a decision, could reverse the decision. Now that has been extended. First of all, not only the supplier or the employer may make an application to the administrator directly, but also the employee, and, as it says, a body—that is, a body of those who are paying dividends. Previously, only the Board's decision was sent automatically to the administrator, and there was something lacking there, because, if you were a party involved in the Board's decision, you had no right to go to the administrator directly. Now, this little sheet here shows that any one of those four can go to the administrator to appeal the Board's decision.

On the longer sheet we give you the limitation times and the sections of the act that are applicable.

Now the supplier, the employer, the employee and the body all have access to the Board. The supplier and the employer are heard directly by the Board. The Board may then solicit the opinion of the employees in groups—that is, their unions. After listening to these four groups of persons the Board makes its decision and refers the matter to the administrator. If one of the four groups is not satisfied with the decision rendered by the Board, it can appeal to the administrator without having to wait for the Board to ask for the decision of the administrator. The four groups can now do it themselves. Bill C-89 will bring that about.

As before, the administrator's decision always goes automatically to the Cabinet. You will see that on the bottom line. The Cabinet has 30 days in which to rescind the order, or to instruct the administrator to vary the decision, giving him whatever suggestions or recommendations it wishes. The bottom line on the longer sheet here shows that the administrator's decision automatically at all times goes to the Cabinet. The Cabinet examines the decision rendered by the administrator within 30 days.

If you belong to one of the four groups and are not satisfied with the decision rendered by the administrator, you may appeal to the Cabinet directly, but you also have the right to appeal to the tribunal.

In that event, you have 60 days in which to appeal the administrator's decision to the tribunal. You may wait for the first 30 days, if you have appealed at the same time to the Cabinet. You may wait for the first 30 days because the Cabinet has 30 days only in which to make its decision. You may want to wait for its decision because you might receive favourable treatment there, and would not have to appeal to the tribunal. If you wish, you may want to appeal to the both at the same time. But you have an extra 30 days after the time has expired for the Cabinet to appeal to the tribunal board.

Section 31 says that this tribunal must act as soon as it can. The word used is "expeditiously." Then, if you are not satisfied with the tribunal's decision, you may appeal to the Federal Court of Appeal, and that is under section 38 of the act.

Further, you may, if you are not satisfied with the Federal Court of Appeal's decision, appeal within 60 days to the Supreme Court, and that is under section 33 of the Federal Court Act. So, in fact you have the Board's decision, which is not a legal decision *per se*. It is a recommendation, if you wish. If you are not satisfied with that, you go to the administrator. From the administrator you go either to the Cabinet or to the tribunal. If you are not satisfied with the tribunal's decision, you go to the Federal Court of Appeal. If you are not satisfied with that, you go to the Supreme Court.

Now, the Cabinet decision is binding upon the administrator. Once they get the decision rendered by the

administrator, they might say, "We cancel your decision, Mr. Administrator," or, "We recommend that the administrator change his decision." That goes back to the administrator, and he must make a decision. From the way section 24 reads, the Cabinet's decision is binding upon the administrator, and this seems to indicate that this is the final decision. But that can be clarified later, Mr. Chairman.

If the Cabinet refers the matter back to the administrator and says, "We are recommending that you vary your decision," then the administrator has to take the case again and make another decision. Presumably, he would follow the recommendation of the Cabinet. After this new decision, if one of the parties involved is not satisfied with the decision, presumably he still has the right to go to the tribunal and appeal that new decision. Therefore, it would seem to say that the Cabinet decision, although it is binding upon the administrator, is not necessarily binding upon the parties related to the decision. You now have all of the processes of appeal.

There is another amendment in clause 11 of the bill. You will remember that there was some discussion at the last meeting that senators were not involved in the processes for making amendments or decisions in the House of Commons. That seems to be clarified now, and the decision of the House of Commons must be made within 15 days. It is on page 8.

Senator Molson: Could you expand?

Senator Macnaughton: Would you give us further detail, or explain it?

Mr. Poissant: You will remember, Senator Molson, that the House of Commons took a decision to make the law cease—Bill C-73 read this way:

(2) This Act expires on December 31, 1978, or on such earlier date as may be fixed by proclamation or a motion for the consideration of the House of Commons that is approved by the House—.

They have added the words "or a motion taken up and considered by the House of Commons that is adopted by the House and concurred in by the Senate pursuant to subsections (8) and (9) . . ." That is the old wording of Bill C-73. It then goes on:

... unless, before December 31, 1978 or any earlier date fixed by proclamation or any such motion that is so adopted by the House . . .

And the new words added are, "and concurred in by the Senate," so it continues:

... and concurred in by the Senate, an Order in Council is made to the effect that this Act shall continue in force for such period of time as may be set out in the Order in Council.

It would now need the concurrence of the Upper House before anything is legally binding upon Parliament. There is a limit of 15 days once that motion comes to this place in which you have to give your concurrence, or reject it. That is the time limit there. This was not there originally, because there was no recourse to the Senate.

Senator Laird: By the way, Mr. Poissant, according to my reading of subsection (9), it does not indicate that we have to arrive at a decision in 15 days; we have to consider it within 15 days. Is there any limitation on the debate that could ensue after that?

Senator Austin: It does say "without interruption and decided not later than the end of the third sitting day," but it does not say what happens if we do not.

Mr. Poissant: I do not have the answer for this, senator. It is stated "within 15 days", and that is after receipt of it from the House of Commons pursuant to subsection (8).

The Chairman: Subsection (10) does provide that if the motion of the House is adopted or concurred in by the Senate then the act expires on the date that is specified in the motion.

Senator Austin: The difficulty being if we do not concur in it, as provided in the section, within the time limit, there is no provision that says what happens to the resolution.

Senator McIlraith: Well, it has not been terminated.

Senator Austin: Presumably.

The Chairman: It falls if the Senate does not concur.

Senator Austin: Within 15 days.

The Chairman: Then, that is the end of it.

Senator Buckwold: It is more than 15 days. We have to deal with it within 15 days of its receipt, and then we have three sitting days in which to carry on, uninterrupted, and make our decision. I think the question is: What happens if a decision is not reached in three days?

The Chairman: There are two situations there. One is that if the Senate does not deal with it within 15 days, then the Senate has not exercised its right of review, but there is nothing in the bill which says in those circumstances the decision of the House of Commons is final.

Senator McIlraith: The act would continue in force, would it not?

The Chairman: The act continues in the form in which it is, without giving effect to the amendment proposed in the resolution of the House.

Senator McIlraith: Assuming Bill C-89 becomes law, the situation is that if the House of Commons passes a motion fixing a termination date for the act, the Senate is compelled to take the message for concurrence into consideration within 15 days of its receipt, and then it must deal with that motion continuously without interruption. It must decide by no later than the end of the third sitting day after it has taken it into consideration. If the Senate concurs, the act expires on the date specified in the motion. If the Senate does not concur presumably the act continues, and it not terminated.

The Chairman: That is the end of it because the language in subsection (9) relates to what the Senate must do. The resolution from the Commons shall be debated without interruption, and decided. It means the Senate makes a decision. If it makes a decision not to concur, that is the end of it.

Senator McIlraith: The act remains in force.

The Chairman: The act remains in force—at least, that is my interpretation. We have the experts from the various departments, including our friend Mr. Gibson, and we will see what he has to say.

Senator Cook: It has to be so, otherwise the section means nothing.

Senator McIlraith: That is right.

Senator Cook: In other words, if the Senate does not concur, well, that is it.

Senator Molson: Can you force the decision to be taken by law, Mr. Chairman? I mean, can the law force a decision to be taken?

Senator Cook: No penalties are listed.

Senator Molson: It says "debated" and "decided". I understand "debated", but the implication in the bill that it has to be decided in that time leaves me a little puzzled.

The Chairman: It is not forcing a decision one way or the other; all it is saying is that you shall make a decision.

Senator Cook: In other words, the Speaker had to put it to a vote.

Senator Austin: It is interesting, Mr. Chairman, that the same rule does not apply to the House of Commons. There is no time limit with respect to their debate, and no fixed time by which they must take a decision, except according to the ordinary rules of the House of Commons. So, there is not mutuality of procedure in the section.

The Chairman: They can make a decision at any time, if they comply with the statute, to prevent a resolution for debate in the Commons. We have no concern about it until the message comes to the Senate, and then we are faced with a time limit within which we must debate and make a decision.

Senator Laird: We have closure in advance. That is the point Senator Austin is making. We have closure written into the proposed amendment, with no closure for the House of Commons.

The Chairman: Quite true. There does not appear to be, but if they do not take any action the machinery does not even commence to operate.

Senator McIlraith: They do have a procedure within their rules for a limitation of debate, which we do not have in our rules. That is the difference. We are going to have the limitation of debate fixed by statute, and they have it fixed by the rules of the House of Commons.

Senator Cook: It is not unreasonable. If it is fully debated in the House of Commons, we should be able to decide in three days anyhow.

Senator McIlraith: There is nothing unreasonable.

The Chairman: Honourable senators, Mr. Gibson, I think, has an answer to the question, and I think we might as well clarify the point right away.

Mr. F. E. Gibson, Q.C., Chief Legislative Counsel, Department of Justice: Mr. Chairman, I am sorry to intervene at this stage, but subclause (7) of clause 46 of Bill C-73, as it then was, provides precisely the same time limit on debate in the House of Commons as is now proposed for the Senate. Indeed, there is a three-day limit for the House of Commons, exactly as it is now proposed for the Senate. That was done at an earlier stage, and does not appear in Bill C-89 because that is not being amended now.

Senator Walker: Before you leave that, what does "shall be debated without interruption," mean?

Mr. Gibson: That is intended to convey the message that it shall be debated without interruption during the normal sitting hours of the Senate. It is not intended that senators sit 24 hours a day.

Senator Buckwold: Senator Walker may have thought it meant he could not interrupt the government as they were proceeding.

Senator Walker: That is a good one, of course. Now that the laughter has died down, would you be good enough to describe exactly what that means? For instance, if we convene at 2 o'clock, do we proceed to this motion immediately, and then go right through the day? It says, "without interruption." Or, could we bring it up at 4.30 and then adjourn at 5 o'clock?

The Chairman: "Without interruption", as I understand it, means that you cannot interject any other business.

Senator Walker: So it would take up the whole day for three days.

The Chairman: Well, you could not interject any other business in the period during which you are considering this motion. It does not mean you have to exhaust the hours of sitting each day during that period.

Senator Cook: In this case the Senate will be master of its own business, anyway.

The Chairman: There is one other point, I believe, that Mr. Poissant wants to deal with.

Mr. Poissant: We feel, and we have discussed this with the Chairman this morning, that there is a technical error in Bill C-73 which could perhaps be corrected. You probably do not have Bill C-73 before you but, if you recall, when we studied that bill, it was explained that in order to arrive at the 500 employees or more, you take into account, to make it simpler, all of the affiliated companies of a group, and you say, "The act says you have to take all of the affiliates, and if the number of employees is more than 500 then you come under the act." This was made clear in clause 3(4) of Bill C-73.

Clause 3(5) of Bill C-73 says this:

Where, on October 14, 1975 or on any day thereafter, a private sector supplier of commodities or services employed five hundred or more persons in Canada . . .

I would like to stop right there. It says that on October 14, 1975 "a private sector supplier—shall", but there is no reference there to aggregating the number of employees to arrive at 500 or more for that supplier, for the sake of the application of subclause (5), which means that when they said you had to aggregate the number of employees, you had to do it only for the purposes of subparagraph 2(a)(ii), whereas it should have said it is for the purposes of the application of the act, or, at least, there should have been a reference to section 3(5). There seems to be a blank there, which could cause interpretation problems. We do not know that, however, and it is debatable. Does the act mean that once you are caught by it you have to remain in that position forever, or, if you reduced the number of your employees because you sold one of the affiliates in your group, or one of your subsidiary companies, thereby reducing the number from 507 to 457, the intention of the act is that you should be covered all along, even if you are below the level of 500 employees after October 14, 1975, after having sold a subsidiary? If that is so, then I think it would mean that the act should be clarified. If it is not so,

perhaps Bill C-73 is clear the way it was written in the first place.

We feel—and this is perhaps a question for the departmental officers—that the only major amendment needed would be one which would make the reference applicable not only to those that supply services but to any company, and the aggregation should be there, if that is the intention of the act.

In discussing that with the Chairman this morning the question was raised as to who is affected. If you read Bill C-73 the way it is, you would calculate the number of these suppliers without taking into account subsidiary companies, and if you have less than 500 employees you can say you are no longer under the act, and therefore you do not have to put in any more forms or returns. Let us say, however, that eventually this is amended, and you are caught under the provision regarding October, 1975, and the intention was that you should remain there. That is the place where we feel there is a danger of wrong application.

The other point we would like to raise, which has also been raised by industry, as a practical approach, is that it would seem to be taking a fair amount of time for the board to render opinions or interpretations as to the application of the law. There seems to be a backlog of requests. Perhaps that is another point that your committee would want to raise, and there may be other points as we go along this morning.

For the time being, however, Mr. Chairman, these are the main points that I would like to bring to the attention of your committee.

The Chairman: Thank you. We will now call on the various officers of the departments.

Senator Manning: Mr. Chairman, before we leave this summary outline that has been given us this morning, could we have an explanation of why it is considered necessary to have the administrator in the picture at all? Would it not be a more practical procedure to give the Board's orders legal rather than advisory validity, and let the appeals go to the tribunal or the Cabinet? It seems to me that to interject the administrator as well as the board is only cluttering the situation, and making the appeal procedure so complicated that it almost gives the impression that the hope is to wear down the applicants by bureaucracy to the point where they throw up their hands and give up before the get to the end of the line.

The Chairman: Do you have any comments, Mr. Poissant?

Mr. Poissant: Well, the only comment I can make at this time, not knowing the answer perfectly, would be that the administrator is the only one under the act who makes a legal decision subject to appeal. You might say: Why not give that right to the board?

Senator Manning: Exactly.

The Chairman: And I suppose you might ask: Why is it necessary to be set up in that way? What is accomplished by doing it that way that could not otherwise be accomplished?

Senator Manning: I can see no purpose in the administrator except to put the Board in the position where it could say that its decisions were only advisory and not legally binding. But somebody has to arrive at the point

where the order has validity in law. Now if we are passing that on to the administrator, it might just as well be held by the Board.

The Chairman: It may be intended to remove some of the exposure from the Board, but judging by what the papers report from time to time it would appear that they are subjected to a lot of exposure even when they act in an advisory capacity. Shall we hear the witnesses from the various departments?

Hon. Senators: Agreed.

The Chairman: Who will lead the panel? Will it be somebody from the Department of Finance?

Mr. Poissant: Mr. Chairman, may I suggest that we are of the impression that this Board was established for the purpose of persuasion, so as not to have to go through all the legal ramifications? The Board says, "We will try to get the parties together, and we will invite them to obey the law," on an informal basis. We feel that this is why this intermediate group is there so that you do not have to go through the administrator, because once you go to the administrator then you have more of a legal concept, whereas here we are trying to get the parties to arrive at a decision without going through that process.

Senator Manning: But the Board can do all that before it makes its order binding.

Mr. Poissant: The Board could still do that, of course.

The Chairman: We have the departmental representatives here. We have Mr. Drummie, Special Adviser to the Deputy Minister of Finance; Mr. F. Gibson, Chief Legislative Counsel, Department of Justice; and Mr. Gérard Coulombe of the Tax Policy Branch. Do you wish to open the proceedings, Mr. Drummie?

Mr. F. R. Drummie, Special Adviser to the Deputy Minister, Department of Finance: Mr. Chairman, we have no specific comments to make. Unfortunately, the minister is unable to be here this morning because he has to be in caucus. However, we are prepared to answer any questions.

The Chairman: Well, you have heard the points raised by Mr. Poissant.

Mr. Drummie: I would like to comment on the first point, Mr. Chairman, and that is the chart you have before you indicates that upon a decision or a modification by the Anti-Inflation Board issued to a supplier, an employer or an employee group an appeal directly to the administrator is possible. Clause 4 of Bill C-89 actually provides a procedure whereby any of those parties who are in disagreement with an opinion expressed by the Anti-Inflation Board may request the Board in writing to make that reference to the administrator. It requires that the Board shall do so upon receipt of such notification. So it is not a direct reference by the affected parties to the administrator, but the only point where a formal reference can be made is retained in the Anti-Inflation Board, and they are bound to do so.

The Chairman: It is not what we understand as an appeal?

Mr. Drummie: That is correct, Mr. Chairman.

The Chairman: It is a reference

Mr. Drummie: That is correct.

Senator Laird: What about Senator Manning's point?

Mr. Gibson: Mr. Chairman, some of the comments that Mr. Poissant made are directly on the point. The government's intention at the time Bill C-73 was introduced and enacted was to place the Anti-Inflation Board in an administrative role with no responsibility for conducting what might be referred to as quasi-judicial proceedings or making anything in the nature of a binding order. The separation of powers, if I can use that expression from another jurisdiction, was built into the bill to put the Anti-Inflation Board in a position of being an advisory body, a body with persuasive powers, but not having the power to make a binding order.

The Chairman: What do you mean by "an advisory body"? Who are they advising?

Mr. Gibson: Mr. Chairman, they advise those in the public sector who are bound by the act in making price decisions and in making compensation decisions. They offer advice as to whether or not in the particular facts of any case the decision on a particular price increase or compensation increase proposed is within the guidelines. And in the last analysis, under the procedure in Bill C-89, if they are unable to persuade the parties to a compensation case, if I may use that as an example, to come within what the Board considers to be an appropriate interpretation of the guidelines, then they will advise the parties that they are not satisfied, and at that point the procedure in Bill C-89 is triggered which would authorize the parties or either of them to request the Board to refer the matter to the administrator for a binding decision. It is that decision that would then be subject to appeals through the judicial procedures, whereas the advice, or whatever name you want to give it, by the Anti-Inflation Board is not legally binding.

Senator Laird: They are nothing but conciliators then.

The Chairman: They could only be conciliators if the parties who are concerned were able to have a hearing before the Board. As I understand it, they are not entitled to have a hearing.

Mr. Gibson: Mr. Chairman, the Board is not really intended to play the role of conciliator. I think I am correct in stating that the Chairman of the Board and the Minister of Finance have indicated that they do not propose to insert the Board into the collective bargaining process. They rely on the parties to make an agreement through the normal bargaining process, and at that stage to bring their concluded agreement to the Board for review as to its relationship to the anti-inflation guidelines.

Senator Smith (Colchester): What is the purpose behind refraining from giving the right of appeal directly from the aggrieved persons to the administrator, rather than their having to ask the Board to please pass on their appeal, their reasons or their reference to the administrator?

Mr. Gibson: Mr. Chairman, that distinction is built into Bill C-89 largely to preserve this separation of functions of which I have spoken. Direct access to the administrator would presume that there was a decision to be appealed from. As I have indicated, the role that has been established for the Board by Bill C-73 is not a role that results in "a decision". The result is that in order to maintain this

purely administrative function of the Board the government felt it is desirable to avoid the concept of an appeal from a nondecision and to refer to it as a reference, providing that the means of access to the administrator would be through the Board, albeit the Board would be obliged to make the reference at the request of either party. It is a technical difference which, in terms of the chart indicating how matters get to the administrator, ends up with a line going through the Board to the administrator, but in the net result there is no distinction.

Senator Manning: Mr. Chairman, will this not mean that all decisions of the Board, to have any significance, will go on to the administrator in any event? The only ones that will not be requested to go on will be insignificant matters.

Mr. Gibson: Mr. Chairman, that has certainly not been the experience to date.

Senator Manning: But you have not had the second phase to date.

Mr. Gibson: Mr. Chairman, there has been no indication that if Bill C-89 had been in place there would have been a stampede to the door of the administrator.

Mr. Drummie: It should be noted, perhaps, Mr. Chairman, that when the Anti-Inflation Board expresses its opinion on a particular case, such as a compensation case, that is an opinion of the board, which is not binding. If the parties, or one of the parties, affected should wish to be referred to the administrator under the provisions of Bill C-89, then upon that reference the decision of the administrator is an order and it is legally enforceable. It is also a case in which the administrator must carry out his own analysis and examination of the situation. His conclusions could be materially different from those of the Anti-Inflation Board, and the risk is present to all parties who are referred, all who ask for a referral, that the conclusion of the administrator and his order may provide either a confirmation of what the Anti-Inflation Board has stated, an increase above that or a decrease below that. So that any party considering a reference—an appeal, in a sense—from the opinion of the Anti-Inflation Board does have to consider whether they are at risk. Therefore, the is some protection in that—not protection, but there is a dynamic at work which does not result in every opinion of the Anti-Inflation Board automatically being referred through to the administrator.

The Chairman: Are there other questions with respect to that point? What about the next point raised by Mr. Poissant? Did you hear him?

Dr. Drummie: Yes, we did, sir. I think Mr. Gibson should comment on it.

Mr. Gibson: Mr. Chairman, I presume you are now referring to the point regarding subsections 3(4) and 3(5) as they appear in Bill C-73?

The Chairman: That is correct.

Mr. Gibson: I have not had an opportunity to study this situation, as Mr. Poissant's remarks this morning were the first intimation I had of this particular point, but my opinion would be that the interrelationship of clause 3(4) with subparagraph 3(2)(a)(ii) is independent of a relationship that exists between that subparagraph and clause 3(5). If I may expand on that a little, my view would be that clause 3(4) provides a rule to be used in determining the number of persons employed in Canada by a private

sector supplier of commodities or services for the purposes of subparagraph 3(2)(a)(ii). Having determined for the purposes of that subparagraph that, aggregating employees of the particular supplier and its affiliates together, it has reached the threshold of 500 employees, there is then an entirely separate and independent rule which provides that, by whatever calculation and by whatever method the calculation is carried out, if on any subsequent day the number falls below the 500, regardless of the method of calculation, it is immaterial, once having reached the threshold, using clause 3(4) to make that determination. The company would be there forever and the method of determining whether or not it ever falls below that threshold is completely irrelevant, because once it has got there it is there to stay until the end of the program.

Senator Flynn: It is a trap.

Mr. Gibson: That is correct. It is a variation of the "lifo and fifo" rule. This one is "once in, always in".

The Chairman: If you refer to clause 3(4), this conclusion that once the threshold is achieved the company must stay there as long as the act is in force has a limitation, has it not, where a company may be said to be associated? What is the effect of that?

Mr. Gibson: Mr. Chairman, it would be my opinion that there is no limitation whatsoever of the "once in, always in" rule. Using the provisions of the act which are relevant to the determination of whether you reach the 500 threshold on any day you break into that threshold—that is you reach the 500 or surpass it—then clauses 3(4) becomes irrelevant to any subsequent determination, because once you are in, clause 3(5) simply says you are locked in. The manner of determination of whether you subsequently fall below 500 is completely irrelevant, because whether you fall below 500 by any determination is irrelevant.

Mr. Poissant: But that is not, with respect, Mr. Gibson, what section 3(5) provides. It reads as follows:

Where, on October 14, 1975 or on any day thereafter, a private sector supplier . . .

Now, that is not defined here. I admit that subparagraph 3(2)(a)(ii) is defined by subsection (4), but subsection (5) is nowhere defined, except for the regular definition of "supplier". There is nothing that tells me in subsection (5) that I must aggregate. There is a definition of "supplier" right at the beginning. "Supplier" has a meaning corresponding to that of "supply". So a supplier, to my mind, is defined, but certainly we do not aggregate here, and there is no way I could find out where you do aggregate under subsection (5).

Mr. Gibson: It would be my opinion, Mr. Chairman, that for the purposes of subsection (5) it would be irrelevant to aggregate. The aggregation rule is for purposes of subparagraph 3(2) (a) (ii), and subsection 3(4) provides that you aggregate for the purposes of that subparagraph which brings you within the 500 rule, and therefore within the mandatory program. The essence of subsection (5), once again, in my opinion, is that having become a private sector supplier of commodities or services within the concept of that rule you are locked in, and the method of determining whether you subsequently fall below the threshold is not tied in to the aggregating rule.

The Chairman: Mr. Gibson, to take the practical viewpoint, what is the effect, if it should be held that your

interpretation is not the proper interpretation? Then you might accomplish in administration something less than the full locked-in position. Is that right?

Mr. Gibson: That is correct, Mr. Chairman. If my expressed opinion is incorrect, and the view expressed by Mr. Poissant were supported by the courts, the number of locked-in private sector suppliers would be less than, in my understanding of the policy, was the intention.

The Chairman: What effect would that have on the administration?

Mr. Gibson: I am in no position to express an opinion on that, Mr. Chairman. I have no figures and, indeed, I am not aware whether there are any figures on the number of private sector suppliers covered by the program who were locked in by the "once in always in" rule.

The Chairman: Can you answer how essential it is to the administration of this act that your interpretation should prevail?

Mr. Gibson: Once again, Mr. Chairman, that is really a quantitative answer you are looking for. The essentiality would depend upon the number of suppliers who might escape the mandatory application of the program if my interpretation were held by the courts to be incorrect.

Quite frankly, I do not consider the likelihood of my interpretation being upset to be high, but that is once again an expression of legal opinion, and if we waited for this law to reach absolute unanimity among lawyers and chartered accountants on all issues under it, it would be a long time before we had the program operational.

The Chairman: What you are saying is that that is the interpretation you give to these particular sections or subsections. It is possible that it might not prevail if challenged, and what I was trying to assess was how important that risk was to the complete administration of this program.

Mr. Gibson: Mr. Chairman, my guess—and that is the best I can give you—is that it would be relatively marginal.

The Chairman: In other words, the restrictions or limitations which might result from the suggestion Mr. Poissant made would not, you say, materially affect the administration.

Mr. Gibson: That is correct, Mr. Chairman, and I make that point particularly in view of the extension which has been made to the application of the program to remove the threshold in relation to the construction industry. That is the area where the threshold of 20 in that particular instance is likely to be affected more by fluctuation. The fluctuation in the size of construction firms is very great. There is much more fluctuation, I would suggest, at that level than at the 500 level.

Mr. Poissant: There are practical cases now in Canada, and, again, Mr. Gibson, if a legal adviser to a particular client takes the stand that the rule is not applicable to this particular supplier because there is no indication whatsoever in subsection (5) that he must aggregate, and consequently he does not put it in his returns or the forms or all of the applications as required, then we think there is a problem. What would be the administrator's stand, or the Board's stand, in a case like that? Mind you, it says October 14, 1975, but if you removed that date what would happen?

Mr. Gibson: Mr. Chairman, in the event that a dispute arises between the Anti-Inflation Board and any supplier for any reason, whether it be a threshold-related reason or otherwise, as to whether the mandatory program is applicable to that supplier and, on the basis of that dispute and the opinion of the supplier, the supplier refuses to file returns, there is a procedure whereby that dispute would eventually be judicially resolved, if it came to that point.

Mr. Poissant: Mr. Chairman, it would be easier if a reference to subsection (4) were to be made with the application of the act. Then you would stop all disputes not only for one particular section but for all sections of the act. With that minor amendment there is then no problem, no ambiguity, whatsoever.

The Chairman: Well, as I understand it, Mr. Gibson has agreed that the effect of his interpretation's not being upheld would be minor in its consequences, although you did make a statement after that, Mr. Gibson, in which you indicated that as it relates to the construction industry it might present problems because you would have a larger area of variables in the employees from time to time in particular construction work.

Mr. Gibson: Mr. Chairman, I meant to indicate that it would now present no problem in the construction industry because the threshold of 20 in relation to the construction industry has been removed.

The Chairman: I see.

Mr. Poissant: In other words, this particular discussion we are having does not apply to the construction industry.

The Chairman: Are there any questions on this point?

Senator Buckwold: How would it apply to somebody who sold part of his business

Mr. Gibson: The locking-in rule, senator, would apply if a particular supplier had four branches in his business

with an aggregate number of 502 employees, and he sold off one of those branches thereby reducing his number of employees below 500. The locking-in rule would apply.

Senator Buckwold: What about the branch that was sold? That is my point.

Mr. Gibson: That is an interesting point. I think it would depend, Mr. Chairman, on the nature of the sale. If the business was sold as a going concern and thus was really a carrying-on of the same business, tentatively I think that the 500 rule would apply. On the other hand, if it was not sold as a going concern, but was a mere sale of assets with no guarantee of continuing employment to the employees in question, that would most likely affect the result.

Senator Buckwold: What you are saying, then, is that if a company decided, for whatever reason, to dispose of one of its operations that had less than 500 employees, the operation that was disposed of would more than likely still be regulated by the act?

Mr. Gibson: Yes, sir. Particularly if the disposal was to an affiliate.

The Chairman: Are there any other questions? Are you ready to deal with the bill?

Hon. Senators: Agreed.

The Chairman: Is there a motion to report the bill without amendment?

Senator Macnaughton: I so move.

The Chairman: Those in favour? Contrary, if any? Carried.

Motion agreed to.

The Chairman: Thank you, gentlemen.

The Committee adjourned.



FIRST SESSION—THIRTIETH PARLIAMENT
1974-76

THE SENATE OF CANADA

PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON

BANKING, TRADE AND COMMERCE

The Honourable SALTER A. HAYDEN, *Chairman*
The Honourable ALAN A. MACNAUGHTON, P.C., *Acting Chairman*

Issue No. 87

WEDNESDAY, MAY 19, 1976
THURSDAY, MAY 20, 1976

Third Proceedings on Bill C-58 intituled:
“An Act to amend the Income Tax Act”

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Austin	Lafond
Barrow	Laird
Beaubien	Lang
Buckwold	Macnaughton
Connolly	Manning
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
*Flynn	Smith
Haig	(Colchester)
Hayden	Sullivan
Hays	Walker—(20)

**Ex officio* members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, April 6, 1976.

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Davey, seconded by the Honourable Senator Lang, for the second reading of the Bill C-58, intituled: "An Act to amend the Income Tax Act".

After debate, and—

The question being put on the motion,

The Senate divided and the names being called they were taken down as follows:—

YEAS

The Honourable Senators

Argue	Lafond
Austin	Langlois
Benidickson	Lefrançois
Bourget	Lucier
Buckwold	Macnaughton
Cameron	McDonald
Carter	McElman
Cottreau	McGrand
Croll	Michaud
Davey	Molgat
Denis	Neiman
Duggan	Norrie
Eudes	Petten
Forsey	Riel
Fournier (<i>de Lanaudière</i>)	Riley
Fournier (<i>Restigouche-Gloucester</i>)	Robichaud
Giguère	Rowe
Godfrey	Smith (<i>Queens-Shelburne</i>)
Goldenberg	Sparrow
Graham	van Roggen—40.

NAYS

The Honourable Senators

Choquette	Macdonald
Cook	McIlraith
Desruisseaux	McNamara
Flynn	Philips—9.
Grosart	

So it was resolved in the affirmative.

The Bill was then read the second time, on division.

The Honourable Senator Davey moved, seconded by the Honourable Senator Sparrow, that the Bill be

referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, May 19, 1976

(115)

Pursuant to notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 10:50 a.m.

SUBJECT: Bill C-58—"An Act to amend the Income Tax Act".

Present: The Honourable Senators Hayden (*Chairman*), Austin, Beaubien, Buckwold, Cook, Desruisseaux, Flynn, Lafond, Laird, Lang, Macnaughton, Manning, McIlraith, Molson, Smith (*Colchester*), Sullivan and Walker. (17)

Present, not of the Committee: The Honourable Senators Davey and McElman. (2)

WITNESSES:

Saturday Night:

Mr. Edgar A. Cowan, President and Publisher.

Following the opening statement the witness was examined by the Committee in its continuing study of the said Bill.

At 11:45 a.m. the Committee adjourned until 2:30 p.m. this day.

2:30 p.m.

(116)

At 2:30 p.m. the Committee resumed its consideration of Bill C-58.

Present: The Honourable Senators Hayden (*Chairman*), Austin, Beaubien, Buckwold, Cook, Desruisseaux, Hays, Lafond, Laird, Lang, Macnaughton, Manning, McIlraith, Smith (*Colchester*), Sullivan and Walker. (16)

Present, not of the Committee: The Honourable Senators Davey, McElman and McNamara. (3)

WITNESSES:

The Canadian Association of Broadcasters:

Dr. Pierre Camu, President, C.A.B.;

Mr. Allan Slaight, President, Global Television Ltd.;

Mr. L. M. Nichols, President, Bushnell Communications;

Mr. J. F. Ruttle, Vice-President and General Manager, Bushnell Communications;

Mr. W. E. Bellman, Vice-President, Western Approaches Limited; and

Mr. M. Robin Quinn, Director, Government and Public Relations, C.A.B.

Following the opening statement the witnesses were examined by the Committee in its continuing study of the said Bill.

At 4:00 p.m., the Honourable Senator Macnaughton assumed the Chair as Acting Chairman.

At 4:40 p.m. the Committee adjourned to the call of the Chairman.

Thursday, May 20, 1976.

(117)

At 9:30 a.m. the Committee resumed its consideration of Bill C-58.

Present: The Honourable Senators Hayden (*Chairman*), Austin, Beaubien, Buckwold, Cook, Desruisseaux, Flynn, Haig, Hays, Lafond, Laird, Macnaughton, McIlraith, Smith (*Colchester*) and Walker. (15)

Present, not of the Committee: The Honourable Senators Davey and McElman. (2)

WITNESSES:

Institute of Canadian Advertising:

Mr. Jack Milne, Managing Director;

Mr. H. M. (Bud) Turner, Jr., President, MacLaren Advertising Limited;

Mr. David Harrison, Vice-President, MacLaren Advertising Limited;

Mr. Phillippe Fisette, Vice-President, J. Walter Thompson Company Limited;

Mr. John Tomlinson, Vice-President, F.H. Hayhurst Co. Limited; and

Mr. Wayne McCracken, Legal Counsel, Campbell, Godfrey & Lewtas.

Following the opening statement the witnesses were examined by the Committee in its continuing study of the said Bill.

At 11:45 a.m., the witnesses left and the Committee proceeded *in camera* to consider some unfinished business.

At 12 noon, the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, May 19, 1976.

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-58, to amend the Income Tax Act, met this day at 10:50 a.m. to give consideration to the bill.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, we now have witnesses from *Saturday Night*, in connection with Bill C-58. Mr. Cowan is the president and publisher of *Saturday Night*. Do you have an opening statement, Mr. Cowan?

Mr. Edgar A. Cowan, President and Publisher, Saturday Night: Yes, I do. Mr. Chairman, I am the latest in a long line of publishers of *Saturday Night* magazine. I have been publishing this magazine, or acting as publisher, for the last 20 months, although we have only published 10 issues in that period of time.

You may not know this, but I came in as publisher of the magazine at a time when the magazine was on the brink of bankruptcy. I then took about six months off, and the magazine took six months off, in order to re-organize, refinance and get back on the scene. We have spent the last 20 months in a kind of total effort, getting this magazine back on its feet.

Saturday Night, of course, has been around since 1888, and is probably the oldest Canadian English language magazine that we have. I suspect that many of you here, long before my time, grew up under various editors and publishers of *Saturday Night*.

Senator Walker: I delivered it in 1912.

Mr. Cowan: We still have them at the office. I have not come forward in connection with Bill C-58 before now. I have, as it were, tucked my own particular views in with those of the Canadian Periodical Publishers Association. However, I thought that this would be the time for me to come forward before this particular group, since there seemed to be some consistency between this group and what this magazine means. As well, I think that, probably because we are an independent magazine, and because we will be the magazine, hopefully, most affected by this bill, there may be some questions you will want to ask.

I would like to spend a moment or two, if I may, just putting the situation in terms of size in perspective for you. It is *Time* magazine that I have to relate to here, because that is where the competition for my dollar is. I like to refer to it as the pea and the watermelon syndrome, in that *Time* magazine, just to keep it in some balance, is sitting there with \$12 million-plus in advertising revenue and perhaps 6 pages of Canadian content, and it has thrived and made a lot of money in this country.

Let me say at once that I consider *Time* magazine to be a fine magazine, and that the publishers of that magazine

have done an excellent job with it. I want to make that very clear from the beginning. However, *Saturday Night's* budget for advertising in this current fiscal year is \$500,000 to \$600,000. An extra \$150,000 in revenue—and I am not talking about millions now, but hundreds of thousands—represents the difference between red ink and black ink for this particular publication, and that is terribly important. Of course, we are 100 per cent Canadian in content, and we employ Canadian writers, illustrators, editors and printers. I think probably the scary thing in getting this magazine back on its feet—and I say this with the thought in mind that many of you senators here come from business backgrounds—is that it has a budget of \$1 million a year. It is capitalized at \$250,000, and you can imagine the running back and forth that goes on between banks and this magazine. I must tell you, however, that the current status of the magazine is very good. I inherited a magazine that has readership—and I am referring here to copies sold—of something less than 60,000. Ten issues later it is now back up to the 90,000 level, and growing consistently. Newsstand sales have tripled. They have gone up nearly 300 per cent since we started off, and I think we are producing the kind of magazine that some of the editors and publishers of the old *Saturday Night* would have liked to see.

The old magazine got into that terrible tailspin of not enough money and not enough capital to do the spending that is required in a circulation-based magazine. I get into that in my brief, so I will not go into it again here, but it is this question of size that is so important.

Senator Walker: And there was also the question of the personnel not being good businessmen and having a poor advertising manager.

Mr. Cowan: Yes, I think there was a combination of that kind, senator. I think I might also add, and I am somewhat amused by this, that the commission paid to the *Time* magazine advertising salesman for last year alone would have financed *Saturday Night* magazine for about three or four years in total. That is the kind of financial perspective that I keep running into. As I say, I call it the pea and the watermelon syndrome.

I have spent some time in my brief talking about the subject of bigness, and bigness is terribly important. It is the availability of large capital in a business that must buy circulation. Circulation is gained through a fine product, yes, and a lot of work, but also circulation is, for the most part, gained through the expenditure of money, and it is those big wells of money that support the major magazines in this country. We are in a situation here right now, where, unfortunately, *Saturday Night* is the only magazine in that middle class. We have many magazines in the 30,000 and under class, and we have several magazines in the 500,000 or 400,000 and over class. That includes the controlled circulation magazines. It is so expensive to go into

the magazine business these days, in terms of buying circulation, that we have seen the advent of the controlled circulation magazine, where they give it away in the hope that the revenue will come back in advertising.

I would like to close off, if I might, by reading just a short section at the very end of my brief, because it really is the backbone of our position. It is certainly the backbone of my position. Before I mention that, however, let me say that the position of the new owners and the position of this publisher is different from the position that the former publisher took. The former publisher made the point that he thought it was a good idea to have as many magazines as possible on the scene to create the environment for more advertising. I do not believe that. I believe that what we must do is to create an indigenous Canadian magazine atmosphere, and have equal competition.

I want to focus on just a couple of the issues, and then I will answer any questions.

In my brief I was talking about the economies of scale, and about, in the short term, having an organization that subsidizes its subscriber until a volume is reached at which the advertiser will willingly replace him, and that is the point at which the advertising is large enough to carry the bulk of the costs of producing the magazine. *Saturday Night* does not have the organization or resources or the bankers to do this yet.

We are talking about economy of scale in the editorial offices. In the case of *Time* magazine, having these immense resources, at the *Time* centre they turn out three-quarters of a book which calls itself Canadian. There are, of course, other competitors that are elephantine as well, who have the advantage of size, scale and credit lines that we do not possess or equal. Maclean-Hunter, and Southam are mice by comparison. Maclean-Hunter, for all its wealth, at least produces a Canadian book from its masthead to the back cover. We are willing and, quite frankly, anxious to lock horns with them on that basis.

The second point then is simply this, the *Time* question is about cultural emasculation and about confusing issues. The fact that *Time* magazine can make a convincing case before the Parliament and people of Canada, to the effect that they are a Canadian magazine, bears terrible witness to the success they have enjoyed in subverting whatever sense this country has of itself. Andy Warhol silkscreening maple leaves, beavers or Margaret Trudeau, does not make him a Canadian painter, not even if he painted these canvases on a Canada Council arts grant. And there is another absurdity in this controversy. The Canadian government has subsidized, through special exemption, *Time/Life* in its quite legitimate vocation, that of money-spinning—and there is nothing wrong with that; and in its quite illegitimate one—that of passing off a sophisticated and encyclopaedic mirror of American life as a real image of a Canadian one.

Essentially that is the position of our magazine, Mr. Chairman, and that is my statement.

The Chairman: Any questions?

Senator Laird: Advertising naturally depends on circulation, doesn't it?

Mr. Cowan: Yes.

Senator Laird: Insofar as your format is concerned, you certainly do not put out a current news magazine, and if

this bill were to pass would you have any ambitions to do that?

Mr. Cowan: I have lots of ambitions, senator, and I think the first ambition, and certainly the first priority, is to get this magazine that has enjoyed such a long life in this country back on its feet once and for all. I have some contemporaries who I like to think have a kind of entrepreneurial spirit and who would certainly like a news magazine built in this country. I know that Maclean-Hunter is certainly trying hard to do that. It is my opinion that in order to do it properly you have to do it weekly, and that involves a tremendous amount of money. I certainly feel quite strongly, now that I am up here, that it can be done and it can be done from a variety of sources.

Senator Laird: I think you are right, because when Maclean-Hunter were here they frankly admitted that to become a weekly current news publication is going to cost a good deal of money. I would think that, certainly for the foreseeable future, you would have no possibility of making that conversion.

Mr. Cowan: No, and not only that but I do not think this publication is the right one to do it. I think what we have to have is a monthly periodical industry as well, and I am hoping that *Saturday Night* will be the bedrock of that particular group. I am quite frankly hoping that within the next two years I will have two or three really hard competitors in the kind of 100,000 to 125,000 or 150,000 circulation category, and that we will be doing our job on the specific demographic group that *Saturday Night* goes after. I think this is healthy. I think we are well served with news in this country—news magazines are a good idea—but we are not well served on the feature magazine front. We are not well served at all.

Senator Laird: Actually you are doing a pretty good job in the feature article field, and I think, if you don't mind my saying so, B. K. Sandwell would approve what you have done.

Mr. Cowan: I hope so, because I can tell you that when I took over the magazine I read all of the Sandwell issues and the roots of the new magazine come from a lot of the work that he did.

Senator Laird: I can certainly see the similarity. At any rate, to wind it up, the crux of my questioning is this, do you anticipate that you will gain any new advertisers as a result of the demise, if that continues, of *Time* magazine?

Mr. Cowan: I can tell you this, in very practical terms, I know of three advertising campaigns that I will get this fall. I know at least three more that have asked us for information, should the *Time* demise happen. I can tell you that those specific three accounts, should we get them, could make a difference in our first full year of operation of red to black. That is how close we are.

Senator Flynn: Have you noticed any change since January?

Mr. Cowan: No, no appreciable change—but a lot more interest. I think what is happening to advertisers is that they are preparing themselves in case something happens. I think most of the advertising and most of the excitement in the new *Saturday Night* has come from the fact that our publication is as good as it is. I cannot really pick out any campaign that has swung from one to the other since then, so I cannot say at this point that this has happened.

Senator Macnaughton: How many employees do you have on your staff?

Mr. Cowan: We have 16 employees—that is, actually on staff—but, of course, a magazine like ours hires most of its writers and most of its illustrators on a per-article basis, and the printing is done outside.

Senator Macnaughton: Where is the printing done?

Mr. Cowan: The printing is done in Owen Sound. But our core staff is 16.

Senator Davey: Would it be fair to say that if the Senate were to reject this bill you would lose this contract and be out of business?

Mr. Cowan: No, we would not be out of business. I think I have just said it would certainly make a difference a little more quickly in terms of the colour of the ink.

Senator Davey: If the Senate were to reject this bill, you would be in the red?

Mr. Cowan: Well, all things being equal.

Senator Flynn: He does not have these accounts now.

Mr. Cowan: I haven't got them now, but I might get them. I think one must be fair here. If we do our job properly, I might be able to get them anyway. It certainly would be a great aid, especially when they are that close to consideration, and I think that is important.

Senator Flynn: Mr. Chairman, I think we should correct the impression that has been left by Senator Davey based on the assumption that *Time* magazine would recommence publication in Canada. That is an hypothesis only. Even if we reject the bill, it does not mean that *Time* will come back right away. The government might look to other forms of help for Canadian publications.

The Chairman: And according to the evidence that we have had from *Time*, at the present moment their circulation in Canada is in the area of 400,000. They said also that for advertising purposes their contracts were on the basis that they would maintain a circulation of 200,000.

Senator Flynn: But I mean the so-called Canadian edition of *Time* is out now, and there is no evidence that it would reappear even if this bill were rejected.

Senator Walker: Mr. Cowan, you have been very frank with us. You are naturally putting your best foot forward, and I admire you for doing that, but these three advertising campaigns which might come your way, are those people at the present time advertising in *Time* magazine?

Mr. Cowan: Yes, senator.

Senator Walker: All three of them?

Mr. Cowan: Yes.

Senator Walker: And that is a magazine with 450,000 circulation. And they are going to come to you rather than *Maclean's* and you have 100,000?

Mr. Cowan: Yes. What will happen is that we will probably wind up with both *Maclean's* and *Saturday Night* benefiting. What they will probably do is combine the circulation in terms of the demographic group and make up the shortfall, because *Maclean's* is pulling theirs down as well, as you know.

Senator Walker: Then, as a matter of fact, it comes down to this, that so far this is conjecture; you do not have anything yet?

Mr. Cowan: That is correct.

The Chairman: The appeal of *Time*, I think, is as a news magazine; is that right?

Mr. Cowan: Yes, sir.

The Chairman: And the appeal of your magazine is not as a news magazine entirely?

Mr. Cowan: That is correct.

The Chairman: To what extent, if at all, would the difference in the audience appeal affect the situation of advertising?

Mr. Cowan: If you examine the kind of advertising that appears in *Time* magazine, I think it can go into two different categories: those types of advertisers who want to be in a kind of corporate environment; and those advertisers who are buying the numbers to market individual product. The advertiser who is advertising individual product, other than liquor, which is by regulation into magazines pretty heavily, you will find using daily newspapers and television as a part of a total campaign in many media. You will find the corporate advertiser, however—and this is where we are achieving some success in the new magazine—looking for the right kind of environment for messages that it wishes to put out, whether it is for business machines or heavy equipment. Sometimes heavy equipment is looking for a corporate environment, rather than for a specific sale. So, in terms of the advertiser, some of them will go the *Maclean's* way; some of them will go, hopefully, the *Saturday Night* way. I said about 6,000; that if we only receive one to one and a half per cent of the residue that was left over from *Time* magazine I would be tickled to death.

Senator Flynn: Is that the only way in which you would be able to increase your advertising revenue?

Mr. Cowan: No; hard work also helps.

Senator Walker: So far you have built it up yourself, have you not?

Mr. Cowan: That is correct.

Senator Walker: And so far the demise or partial demise of *Time* has not reflected at all in your advertising business?

Mr. Cowan: It has only in the sense of —

Senator Walker: Projections?

Mr. Cowan: Projections and also there has been a marvellous focus over the last eight or ten months on the whole magazine business.

Senator Walker: Thank you.

Senator Buckwold: First of all, allow me to tell you that I really enjoy your magazine; it has improved tremendously, and I hope you will be able to keep going. However, I must say that the product before the revival almost deserved its demise. I say this as one who is anxious to see *Saturday Night* continue, but it deteriorated badly. I notice that you are being assisted now by the Canada Council.

Mr. Cowan: Yes.

Senator Buckwold: And the Ontario Arts Council?

Mr. Cowan: Yes.

Senator Buckwold: Could you explain that a little, please?

Mr. Cowan: Approximately four and one half per cent of the total budget of the magazine comes to us in the form of grants from those two arts agencies in terms of extra money on the editorial side. It is money spent strictly on editorial content in terms of extraordinary arts coverage, which you may notice. We are now able to do full colour treatments in the magazine of painters, sculptors, and not only that but much of the new money has gone into putting fiction back into *Saturday Night* magazine in a major way. Fiction is expensive, in purchasing it and finding it. Most of that money is going directly to writers to do that sort of thing. Otherwise, in a commercial sense one would not quickly jump to put fiction in the magazine or get into large colour spreads of specific interest in the arts. As a business it certainly would not be high on the priority list, but in terms of the total environment of the magazine we have been able to integrate it nicely.

Senator Buckwold: Is this important financial assistance likely to continue?

Mr. Cowan: Well, it is my hope, because I am a business person, that as soon as possible we will not have to have that.

Senator Walker: As soon as the balance sheet is good enough?

Mr. Cowan: That is correct; as soon as we see some regular good colour ink we will not even be asking for it.

Senator Buckwold: Did this come about as an attempt to revive *Saturday Night*? Is that when the Canada Council moved in?

Mr. Cowan: No, it had been around for, I believe, approximately six or seven years. It has been of substantial help to us in terms of getting going. It has been very difficult, because there just has not been the kind of cash around that we would like to run a business.

Senator Molson: To return to your circulation, you said that presently it is near 60,000?

Mr. Cowan: Presently it is nearly 90,000.

Senator Molson: Is that fairly national?

Mr. Cowan: Yes, it is; it breaks out that 50 per cent of the circulation is in Ontario, which might be termed the central region. The rest of it breaks out right across the country. Actually, we do very well in British Columbia and in Nova Scotia, but are a little thin in Quebec, for obvious reasons. However, the rest of it is spread throughout the country. We do quite well in the Northwest Territories, also.

Senator Molson: In all this reference to advertising, all these things have a bearing, do they not, and if you increase your circulation, as you hope, perhaps quite substantially, again the distribution will have a strong bearing on your financial success?

Mr. Cowan: Oh, there is no doubt about that. In building our circulation we have been trying to reach a certain

demographic group. We are succeeding to a certain extent. It takes a long time to do it, but I think that in view of the increases we have experienced this past year, if we can repeat that for one more year we will be well on the road. There is a limit, by the way, to the kind of circulation that a magazine such as *Saturday Night* can have and still remain reasonably pure in its demographic situation, which I am sure probably would not exceed 160,000 or 170,000. The moment you get me on to that, we are speaking of a totally different magazine.

Senator Molson: It would be concerning itself with popular issues, perhaps, rather than these more specialized articles you publish?

Mr. Cowan: Yes, it is an interesting analogy that in the United States there exist probably 10 magazines such as *Saturday Night* who are all vying for the same kind of audience and the same kind of dollar. So an advertiser might have 10 people coming at him with the same type of quality story which really helps, and you can in fact do pretty well on a per capita basis. It is interesting to note that *Saturday Night* is doing much better in terms of its circulation than magazines such as *Saturday Review*, *Harpers* and *Atlantic*. Some of them do much better, but those magazines are of about 350,000 circulation, in a 200 million population country. So, on a per capita basis we are doing quite well. Unfortunately, I do not have the competition that I would like to have in order to create the whole environment so that the magazine business will be better.

Senator Cook: Do you have any difficulty getting good material to put in your magazine?

Mr. Cowan: None whatsoever; we have received 3,000 manuscripts during the last five months.

Senator Davey: In your brief, Mr. Cowan, you have a section headed "Big Circulation Buys Newsstands Position". I wonder if you would explain what you mean by that. If you could elaborate on the problems you see in that, we would find it very helpful.

Mr. Cowan: It is this whole question of bigness breeding bigness. I believe it happens in all sorts of businesses: the bigger you get the more the public is aware of you, and the more the public is aware of you the more anxiety there is to get hold of the product and see it. The newsstand operator, after all, is in business. If he can sell 400 copies of *Playboy* or 500 copies of *Time* magazine and only 75 or 60 of *Saturday Night*, he will put his big money earner right out there in front. It is really as simple and straightforward as that.

Senator Davey: Who determines the position on the newsstand? Does the distribution company, or the man who owns the newsstand?

Mr. Cowan: I have come to the conclusion that it is the person who runs that particular newsstand.

Senator Davey: Does the position on the newsstand affect the number of magazines sold by *Saturday Night*?

Mr. Cowan: Absolutely; we have just purchased a number of wire racks, which will put us out in front. *Saturday Night* never had the wire racks previously.

Senator Davey: But do you not have a subsidiary to distribute your magazine in a large part of the country?

Mr. Cowan: No, we do not.

Senator Davey: You are not distributed by Metro?

Mr. Cowan: I am sorry, yes, in the metro area, yes, it does. And I think that they are trying to do a job, but, again, there are other business forces, and the major business force in terms of magazine distribution, from my own personal experience over the last 10 or 12 months, has been the problem is right there at the newsstand. The owner of a newsstand.

Senator Davey: To my personal knowledge, you have a background in the advertising agency business. Would you care to comment on why the Advertising Agency Association opposes this bill?

Mr. Cowan: You really want me to get into trouble, don't you?

Senator Davey: You don't have to answer, if you don't want to.

Mr. Cowan: It is an obvious self-interest situation. If I were running a major agency in this country, I would not like to upset the status quo. An advertising campaign in *Time* magazine would be very lucrative. One placement in *Time* magazine means about six or seven different placements in *Saturday Night* magazine. It is very costly to produce a full-colour magazine ad. Hence, the biggest circulation and, indeed, the biggest money earner for you is going to be sitting out there in front. If you are going to do a full-colour magazine ad, it would be nice to have it in something like *Weekend* where it is \$17,000 and \$20,000 an insertion. The commissions are very nice. It is my personal opinion that the advertising community, especially advertising agencies, have taken a rather short-sighted view of their own business. Those same agencies coming forward as being opposed to the bill are the very Canadian agencies which shout, and scream "murder", when a multi-national advertising agency takes over an advertising account. When a J. Walter Thompson, for instance, takes away a piece of General Foods business from a Canadian-owned advertising agency, you see it on the front pages of all the trade magazines. In a sense we are in the same boat. I think one of these days, hopefully, they will get on side.

Senator Davey: Those of us who have supported this bill have talked a lot about what this bill might mean in terms of new Canadian magazines other than *Saturday Night* and *Maclean's*. You mentioned in your presentation something about small Canadian magazines with a circulation under 30,000, I think you said. Would you make any comment on the activity in the Canadian publishing community generally in the area of new magazines of all kinds?

Mr. Cowan: There is a lot of talk. Many of us are thinking about where the marketplace for new magazines is. For instance, just this morning in the *Globe* I see where somebody is starting up a magazine for men. In fact, there are three of them, I believe—one in Montreal, one in Toronto and one out West. I think there are a lot of people interested. I know that key publishers, for example, Michael de Pencier's group, have several. It is interesting, for instance, that in this particular year, in which there has been some hope, the *Canadian Review* has started up. I am pleased to see them there, because they are a magazine which could come into our field very easily. There is also a magazine that started up this year on the east coast, *Axiom* magazine, which is not a bad little magazine. I understand it is on its feet. It is struggling along, but getting there. A new magazine that is coming on the market this month is called *A Young Family*. It has just started up and seems to

be getting going. The *Owl* magazine for children is in its second publication right now and it is a very good magazine for children.

Generally, the importance of this bill is that it is creating a positive psychological atmosphere for people to take a chance and get into publishing. Before it was like David and Goliath; it was like going in and having tremendous odds against you. I think more publications going after more ad dollars, more competition on an equal footing, is really what we need. I think there are many young people who would like to get in it, judging from the number of calls I get every week.

Senator Flynn: You are not suggesting, really, that the mere demise of *Time* magazine is creating this interest in Canadian publications?

Mr. Cowan: No, it is not just that; the interest has always been there.

Senator Flynn: But the only practical effect of this bill, so far as publications are concerned, is the demise of *Time*. You are not suggesting that all these new types of magazines will appear because *Time* will disappear?

Mr. Cowan: No, I am not suggesting that, but I can suggest to you that any reasonable portion of that \$12 million or \$13 million in ad revenue that gets spread around will be a terrific help. I think quite a bit of it will go into the newspapers; some of it will disappear in some other medium; but if a couple of million dollars alone gets back into Canadian magazines that will be a terrific help.

Senator Cook: I think the figure is \$8 million. That was the figure given by *Time* magazine.

Senator Walker: Anyway, it is nice to add on another 50 per cent.

Senator Austin: Mr. Cowan, would you be concerned about a single magazine such as *Maclean's*, for example, occupying over the next few years a dominant place in the advertising market for periodicals? Should there be a policy, in addition, that prevents one magazine from dominating, even though it is Canadian-owned and meets all the other criteria? Should such a magazine be prevented from becoming dominant in its control of advertising revenue?

Mr. Cowan: Of course it would worry me, but I think that is fair business. It is all right. But there is one thing I would not like to see happen. I would hate to see the major magazines become totally controlled by large operations such as Maclean-Hunter or Southam or the *Toronto Star* or Thompson. I think it is important that we find a way somehow to keep independent magazines such as *Saturday Night* going. Quite frankly, it is a question of concentration again. Independent magazines are a very good thing for this country and concentration is bad in the magazine business, just as it is bad in the broadcasting business or in the newspaper business. We need a broad point of view and in this country we need to get across many points of view.

Senator Flynn: How can you achieve that?

Mr. Cowan: I don't know. I am a kind of new boy and I have been trying to publish a single magazine, so I have to think about it for a while. I am not quite sure.

Senator Walker: That is a good expression, isn't it—"new boy"?

Senator Austin: With respect to the "not substantially the same" issue, the 80 per cent question, can you give us your views or your opinion, even as a new boy? I am sure your view may have great value.

Senator Flynn: From one new boy to another new boy!

Senator Austin: I wonder if you could tell us if, in your view, 80 per cent is an absolute *sine qua non* to make this policy work. Could it have been 86 per cent or 51 per cent?

Mr. Cowan: My position is that 80 per cent is the absolute minimum, not the maximum. As far as I am concerned, it should be 100 per cent, because I like competing on an equal footing. If we were a different kind of people at *Saturday Night* magazine and it was down to 60 per cent, you could be sure I would be trotting down to the United States to have some serious conversations with American publications about supplying to me the remaining 40 per cent at relatively low cost, or doing some trading. I don't think that is good. I don't think that is right, especially at this time. So far as I am concerned, with me it is a question of "absolute".

Senator Austin: Can you be more specific as to why it would not be good for Canadian readers to read a magazine that had, say, 40 per cent U.S. or foreign content in it?

Mr. Cowan: Well, it becomes a question of Canadians communicating with themselves. Are they going to communicate with themselves 40 per cent of the time, or 60 per cent of the time? We want, really, to try to communicate with ourselves all the time. I do not mean that we should block out foreign views. I am talking about communicating among ourselves. I know that might sound rather simplistic, but it happens to be my view.

On the question of magazines, and the advertising that is in them—and, after all, that is the base of the bill—my view is that one of the main social values of advertising, if we are to find one, must be to help us to communicate as Canadians together, and I think it is useful that if we are going to do that, it should go into magazines that are, hopefully, 100 per cent Canadian content magazines. I am not referring to writing only of things that are happening in Canada. We want Canadians' views of what is happening around the world, not somebody else's view.

Senator Flynn: But if Canadians continue to read foreign publications at the rate they do, in order to achieve your purpose or objective, would you go as far as barring entry of foreign publications, or, let us say, putting a tax on them?

Mr. Cowan: I would not bar foreign publications, because that is a question of the freedom of the press. I do not think virtually any publication should be barred.

Senator Molson: It is also a question of the freedom of the individual.

Mr. Cowan: Yes. It is a question of freedom of choice.

On the question of tax, I do not think I could support that on either. Perhaps if there were a small tax and the revenue were to be plowed back into the industry I could go for it, perhaps like a movie house quota in terms of Canadian production.

Senator Flynn: I am sure you agree that your real competition, as far as Canadian identity is concerned, would remain the same, whether we pass this bill or not.

Mr. Cowan: Well, it will, except that *Time* magazine is read by a lot of Canadians.

Senator Flynn: I am speaking of all foreign publications entering Canada. I am not speaking of the *Time* Canadian edition. The crux of your problem is there, in any event.

Mr. Cowan: But we have to start sometime, and we have to start some place, and this has gone on for too long. I think there are a lot of people in the country right now—publishers like myself—who are prepared to spend time developing an indigenous Canadian magazine industry.

Senator Flynn: Putting aside your financial problem, I am just trying to deal with the question of Canadian identity, because after all, this has been the argument behind the bill. It is said that we want to create a Canadian identity. Do you not think that if Canadians continue to buy foreign publications at the rate they do the problem will remain the same?

Mr. Cowan: Yes. The problem will be there, but if we can build up a strong Canadian magazine and periodical industry, then that effect, hopefully, would be watered down.

I guess the best case in point that I can think of is that of the history of Canadian radio. I grew up in Toronto, and I can remember, in my early days of listening to radio, that you could only get, and listen to, the Buffalo radio stations. Now nobody in Toronto listens to Buffalo radio stations, because we have a good radio system in Toronto and we only listen to Canadian radio. I hope that lesson can apply to the magazine business. There is a willingness on the part of distributors to try to make this happen, and until we do something about it, sitting back and carping and complaining about it is not going to help. The government can help, though I am not sure in which ways, but this would certainly be one of them.

Senator Cook: I agree with your comment about radio, but I would like to point out that it costs us about \$80 million a year to achieve that.

Mr. Cowan: I think it is well worth it.

Senator Flynn: Are you suggesting that the government should subsidize Canadian publications at the same rate as radio or television?

Mr. Cowan: I have not formulated my personal opinion on that. I think that has to be wrapped up in an overall policy. I think this particular bill could be the start, hopefully, of more participation by both the public and by industry in developing a long-term policy with regard to the building up of the periodical industry.

Senator Flynn: I would say that if we had an increase in population your case might be improved a great deal; but with only 25 millions, as compared with the 250 million of the United States, I think your problem will always be there.

Senator Davey: When you speak of radio, are you referring to the CBC, as Senator Cook seems to be?

Mr. Cowan: No, it is non-CBC radio that I was referring to. I did not listen to the CBC for a long time.

Senator Molson: Mr. Chairman, I would like to ask Mr. Cowan if, in his projection, when he speaks of building up circulation—which, of course, Maclean-Hunter and others hope to do—he foresees that the same number of foreign magazines will be purchased in Canada, and that all the

increases for Canadian magazines which are beginning to come forward will be just added on top; or does he not think that subscribers will balance off with regard to the total outlay they make for magazines? How do you regard this economic part of the picture?

Mr. Cowan: I am just facing, or starting to face, that problem now. I receive quite a few letters on this subject, you know. We raised the cover price of our magazine—in fact, we doubled it from 50 cents to \$1, and doubled the subscription price. Subsequently a lot of people wrote in to tell us that they just could not afford it. I also have many letters from people who say that in terms of the amount of money they put aside in their budget they cannot afford our magazine this year, but perhaps next year they will be able to. That is something, of course, that we are facing right across the economy right now, but a magazine purchase is an end of the line kind of purchase, rather like going to the movies.

In response to your question, I guess I have to say that we are hoping—certainly the Canadian sector is hoping—to build up circulation and carve it out of the existing marketplace. There is a lot of work going on in the Canadian periodical business in terms of developing new markets for our own publications. It takes money, but we are seeing financial people coming forward a little bit more in terms of starting up independent publications, and the more we have, and the more survive, we will see that that money will continue to be plowed back into circulation, especially if we deliver a good product. We are finding with *Saturday Night* that people really like it now and are prepared to weigh it against the United States magazines when they are making a purchase. But I cannot give you a specific answer on that because I do not have enough experience in that field at this time. It is, however, something that is being watched very carefully by the Canadian periodical publishers. We have gone into the question quite carefully at *Saturday Night* as well, but I cannot give you an answer, I am sorry.

Senator McElman: Could I go back to the 60 per cent proposition? If a magazine were 60 per cent substantially different, under that rule, and a Canadian publication were to make a deal with an American publication to buy 40 per cent, would that make the competitive situation very difficult, or impossible, for a magazine which was producing at much higher costs all of its editorial content within Canada?

Mr. Cowan: It is my opinion that that is so.

Senator McElman: And that really is the crux of the percentage we are speaking about?

Mr. Cowan: That is right.

Senator McElman: You mentioned earlier that new magazines are starting up. With respect to existing magazines such as your own, it is well known that you have had a very difficult financial picture over a period of time. Do you see the effect of this legislation freeing up advertising dollars and advertising budgets? Do you see the effect of this improving the quality of existing Canadian periodicals, or just profitability?

Mr. Cowan: I think it is going to be a bit of both. If I were an investor, I would certainly hope that it would help the profitability picture. But I think we have had a history in this country of plowing back a lot of profit into quality, and I think we have seen this with the news magazine that

Maclean's is doing right now. I think they have ploughed back a lot of money from the first two or three issues and I think we are now seeing a much better *Maclean's* magazine. Of course, the general periodical business in this country has never been very flush—that is Canadian-owned ones—so that to talk of profits hardly comes into question. *Chate-laine* had a few good years, but most of the time it is marginal. But I think that we all feel that our time has come now and we are hoping that not only will we be able to produce a quality magazine but that we will also be able to give our investors some return on their dollars, because nothing will help the magazine industry more than a few dividends.

Senator McElman: That is in general terms, but, as a publisher, are there things at this point in time that you would like to do in improving *Saturday Night* that you can do if your profit picture improves?

Mr. Cowan: Yes, I would like to increase the number of pages. To start with, I would like to be publishing a 130-page periodical. I also would like to be publishing 12 times a year instead of ten times a year. In terms of treatment inside the magazine, I think we are doing pretty well, but I would like to be there more often and I would like to have more to read in the magazine. I think from my point of view the balance of advertising and editorial content is not high enough in the advertising end, but as we get better it will become that. We will lose some editorial pages, but that is business. I think that a 120-page magazine with approximately 60 editorial pages and 60 advertising pages makes for a very healthy balance. Even 50 pages of advertising would be extremely good, but right now we are lower than that.

The next issue of *Saturday Night* magazine, which is the June issue and which will be a large special on the city of Ottawa, will be the most successful issue in about 38 or 39 years, from a revenue point of view. As an issue it will actually be in the black.

Senator Laird: Do you have the Seant in that?

Mr. Cowan: The last time I looked, I did not notice.

Senator Desrousseaux: What is the percentage in that issue?

Mr. Cowan: That particular issue is about 60-40—60 per cent editorial and 40 per cent advertising.

Senator Desrousseaux: And it is profitable?

Mr. Cowan: It is profitable.

The Chairman: Thank you very much, Mr. Cowan.

We have this afternoon at 2.30 the Canadian Association of Broadcasters, and tomorrow morning we will hear from the Institute of Canadian Advertisers. Then don't forget that next Wednesday morning Mr. Faulkner returns to the witness box for further questioning on Bill C-58.

The Committee adjourned.

The committee resumed at 2.30 p.m.

The Chairman: Honourable senators, this afternoon we are going to hear a statement from the Canadian Association of Broadcasters. The association representatives are Dr. Pierre Camu, who is the president; Mr. Allan Slaight, who is president of Global Television Limited; Mr. L. M.

Nichols, who is president of Bushnell Communications; Mr. J. F. Ruttle, who is vice-president and General manager of Bushnell Communications; Mr. W. E. Bellman, who is vice-president of Western Approaches Limited; and Mr. Robin Quinn, director, Government and Public Relations, CAB.

Dr. Camu, will you make your opening statement?

Dr. Pierre Camu, President, Canadian Association of Broadcasters: Mr. Chairman and honourable senators, first I wish to thank you for the opportunity to present to you this afternoon the views of private broadcasters. I have on the platform with me Mr. Nichols, Mr. Bellman and Mr. Slaight, who together represent considerable experience in the field of broadcasting, especially, of course, television. They come from three different cities: Mr. Nichols is from Ottawa, Mr. Bellman is from Vancouver and Mr. Slaight is from Toronto. In order that you may have an opportunity to ask questions of these experts, my opening statement will be brief, in the hope that the exchange will be profitable to you as well as to them on the question on which we are here.

Our association, the Canadian Association of Broadcasters, represents 388 broadcasting member stations. This includes both radio and television. It represents approximately 90 per cent of Canada's privately-owned broadcasting stations. Together they make up about 60 to 65 per cent of the Canadian broadcasting system, if we exclude the CBC. Some of what we will say today will repeat what we said to the House of Commons Committee on Broadcasting, Films and Assistance to the Arts, but I will make my statement today much briefer. The text has been given to you in advance in both languages, English and French. I will stick to the main issues, again saying I would prefer to give these gentlemen a chance to express some of the details on this important question.

In 1974, our association brought to the attention of cabinet ministers and their staff the serious question of Canadian advertising sold on United States border television stations and beamed back at Canadian audiences. That is the problem.

Subsequently, on October 31, 1974, we presented a brief, together with the other association representing the cable interests, the Canadian Cable Television Association, on that question to the federal government. The recommendations we made are essentially embodied in the broadcast clauses of Bill C-58, and it is our hope that this committee will recommend to the whole Senate approval of these sections.

I would like at this point, not to repeat what we have in our brief, which is available to you, but to go straight to what I would call the proposal, the major reasons and the issues, taking up only a few minutes.

What has been proposed in the bill is the amendment of the Income Tax Act, section 19, to prohibit the deduction of advertising expenses from corporate and business income when such expenses are incurred to buy advertising time on foreign television stations whose signals are receivable in Canada when the commercial advertisements involved are aimed at the Canadian market. This amendment would benefit the television and radio media in Canada immediately.

There are several reasons. Really, the immediate benefits of the proposed change include: first, an increased quality in Canadian programming, if of course this amount of

money could be diverted to Canadian stations; secondly, it would ensure the financial viability of new Canadian television stations in a difficult financial period and support for other Canadian media, namely radio and print; thirdly, it would create certainly new Canadian jobs in broadcasting, which will strengthen the Canadian broadcasting system; and fourthly, it would increase creative opportunities for Canadian performers, writers, producers and technicians who earn income from broadcasting.

The added strength of the Canadian broadcasting system as a result of the infusion of fresh revenue to the revenue base of all networks and of the new independent television stations will result in more and better Canadian content production. This comes at a time when demands are being made for greater regional participation in television productions and the need to extend network services to those parts of Canada still not served at all by Canadian television. This, I might say, is one of the objectives of the CRTC, based on the Broadcasting Act.

There has been concern expressed in the Senate that some advertisers in Toronto, or in other border areas presumably, will be unduly penalized because the effect of this amendment would double the cost of ads taken out on, for instance, Buffalo stations. The latter are needed, according to this argument, because the major Toronto-Hamilton stations' better time spots are sold out on a year-round basis. This hypothesis continues that the newer Toronto stations are not a good alternative, because you have to have audiences or it's no use advertising.

We do not accept the conclusions of this argument. First of all, the alternative space is attractive and available. The two stations mentioned, CITY and Global, who are members of our association, are steadily increasing their popularity to the point where CKGN (Global) has a better rating now from 7 p.m. to 11 p.m. Monday to Friday, than two Buffalo stations, and is only one and four percentage points behind the other two, WBEN and WKBW, respectively. The problem is, how can the new stations catch up if they have to face, not only the stiff competition of the old-established Canadian stations—because our members are competing among themselves—but, as well, the competition from foreign stations which are not licensed to serve Canada, let alone Toronto?

Similarly in Vancouver. The New third Canadian station in Vancouver will have to face the fragmentation of the world's highest developed cablevision system which brings in five American signals. This includes KVOS (located in Bellingham, Washington) which can be received "off-air," and which derives 90 per cent of its income from the metropolitan Vancouver area. KVOS is not licensed in Canada, does not come under the Broadcasting Act of this Parliament, and is not subject to the regulations of the CRTC. That station claims to live up to the "Health and Welfare Regulations of Canada or the United States (whichever the station deems to be the most stringent), but when it comes to the real test—Canadian content, and in distinctive service to Canadians, such as in news and public affairs—there is no contest with Canadian stations. KVOS is licensed by the FCC of the United States, but that station lives on the Canadian market.

If the policy established and set down in the Broadcasting Act of 1968 is to have meaning, all the stations which derive their livelihood from Canadian communities must be licensed by a Canadian authority. Otherwise, there are

two sets of rules, the demanding one for Canadians, and an easy one for others.

For these reasons and the others enumerated in our original brief of October 31, 1974, we ask the members of the committee to support the Canadian private sector at a time and in a way that cries for support. To repatriate Canadian dollars cannot be considered a drastic reform but a reasonable step to correct this "spillover" problem.

We will be pleased, Mr. Chairman, to answer any questions, but before proceeding with that part I would like to say that we also have a short presentation on film that Mr. Nichols could explain, if it is your wish if it is not, it can be left out. We feel this short film presentation of the kind of ads shown on these border stations may be an interesting complement to our presentation.

The Chairman: Any questions?

Senator Laird: Mr. Chairman, before we move on to Mr. Nichols, I would ask Dr. Camu about the possibility of a settlement of this problem through negotiations. In fairness, Dr. Camu, I should tell you two things: number one, I am from Windsor and, of course, the reverse situation obtains there as Mr. Jack Ruttle knows very well; and, number two, when Madame Sauvé was here, I must admit that I asked a number of questions about negotiations as a means of settling this problem rather than a confrontation that would be produced by passing Bill C-58.

I ask you, frankly, what do you think of the possibility of pursuing those negotiations as a solution to the problem for both sides?

Dr. Camu: A negotiated solution out of court, if I can use that expression, or outside discussions related to Bill C-58 are always interesting for the private sector. The private sector has always been in favour of trying to negotiate as far as they can and as much as they can, and we have done that in many instances in the past.

However, in the case of Bill C-58 it is a problem that is very serious. It has affected us right across the border, and there are three examples we have today concerning these three colleagues in their areas. If such a solution could be negotiated, it would have to be with broadcasters individually, because as an association we do not settle problems, as such; we can help members. This is a non-profit organization and, as such, I do not operate stations. My membership is not composed of individuals; it is composed of stations. Therefore, stations would have to look at this problem on, probably, an individual basis.

We feel this problem has been with us for quite a while and, in fact, dates back for so long that we would prefer to have at this time not a negotiated settlement between the parties involved but a clean-cut decision by Parliament—that is to say, the House of Commons and the Senate together. We hope, then, that this bill will come up and clean up the air once and for all.

I am sorry to say that at this point this is the solution we prefer, and we hope that this bill, once it has been examined by this committee and then reported to the Senate, will be passed and approved.

Senator Laird: Madame Sauvé did indicate that there had been, what I took to be, a start on negotiations. Of course, we always like to think that if you are patient and negotiate long enough, as between ourselves and the United States because of our special relationship, the possibility of solving the problem is always there.

Dr. Camu: We are aware of discussions that have taken place between members of our department and representatives of the FCC, and I believe the equivalent Department of Communications in the United States. There was such an official meeting in January. We understand that officials of the two countries have had discussions, but we are not aware that it has reached the stage of negotiations.

Senator Laird: In other words, the CAB was not brought into the act?

Dr. Camu: No, senator.

Senator Laird: It was all individual stations and you say that you, as a body, an association, CAB, really do not feel you are in a position to represent all of your members in this connection?

Dr. Camu: No. When it comes to what I call strictly the commercial aspects of broadcasting, as such, it is left to stations, to renew their licence, look for applications and to sell programming and so forth. This is entirely their problem.

Senator Laird: Therefore, you would have no authority, as president of the CAB, to enter into negotiations of the kind I suggest?

Dr. Camu: I would not, unless I am delegated so to do by my board, and I do not have that power.

Senator Laird: Up to this point.

Dr. Camu: No.

Senator Laird: I am just wondering whether perhaps some of the other gentlemen would care to answer whether or not there has ever been any thought of authorizing the CAB to negotiate.

Mr. Allan Slaight, President, Global Television Ltd.; A Director, Canadian Association of Broadcasters: Senator, as a director of the CAB and as a member of a number of stations or networks, it has not been discussed, and in my personal opinion we have gone too far down the road at this time to consider negotiations.

We think there is too much urgency. I am only referring to Bill C-58. We think there is too much urgency and too much logic on the side of the Canadian broadcasting industry to engage in negotiations at this time.

Senator Laird: Does that include the CBC?

Mr. Slaight: We do not speak for the CBC.

Senator Laird: Of course, they are a big factor, are they not?

Mr. Slaight: They would have to speak on that issue separately.

Senator Desruisseaux: Has there been an appraisal made of the consequences of the approval of your suggestions? I am speaking of the American side mostly.

Dr. Camu: Are you referring, senator, to the amount of money involved?

Senator Desruisseaux: No, I am referring to what might be the consequences for your stations, if your views were adopted, your amendments approved?

Dr. Camu: The consequences?

Senator Desruisseaux: From the other side, any possible reprisals or something of that sort?

Mr. L. M. Nichols, President, Bushnell Communications; Canadian Association of Broadcasters: I do not think there would be any reprisals on the private television broadcasting aspect of it.

Mr. Slaight: The U.S. government, senator, is looking at the bill as an internal Canadian tax problem. There is more concern about the question of deletion, which is not the subject today. We are on Bill C-58. We, at Global, operating in the Ontario region, do not believe that there would be reprisals. There just does not appear to be any particular point in it, or any particular manner in which it could be applied.

Senator Desruisseaux: Are the members of your association in accord with what you are presenting today?

Dr. Camu: Yes.

Senator Smith (Colchester): It was said a few moments ago that the two new stations in the Toronto area were making forward steps in their audience size and, indeed, in one case it was said to have come within 2 per cent of the rating of one of the Buffalo stations. I am wondering what has made this possible.

Mr. Slaight: Could I speak to that, senator? We are the operation referred to, Global. The growth of Global's audience has been significant, ranging to spectacular, depending on the side you are viewing it from. The reason, we believe, for our very major audience increases is because we went into business—the new company who brought Global back from bankruptcy in 1974, when it was losing \$1½ million a month—predicated on Bill C-58 being passed and, frankly, being active long before this. We invested money in good programming. I am talking about mass appeal programming. It is always a subjective decision as to whether it is good programming. It has been reflected in our audience growth.

There has been a tremendous amount of misconception and inaccuracies about the so-called inventory problem. Let's speak specifically about the Toronto market. The plan by Canadian advertisers and Canadian agencies is that if Bill C-58 is passed and they are inhibited from purchasing Buffalo television—and of course they always could, there is no law against it, as we know—there would be just the tax deterrent, but if they were inhibited against purchasing Buffalo television, they would not be able to obtain enough good commercial exposure time in Toronto, and that simply is not true.

You have before you a presentation from the Institute of Canadian Advertisers, which, of course, is the Canadian advertising agencies, who are fine people, and whose support we dearly need, but of course they want the widest possible range of options, and it is logical and understandable that that group would prefer that Bill C-58 not be approved. They also strongly fought implementation of the Canadian content rule on television, claiming that it would ruin their purchasing power, and of course, it has had absolutely no effect on it whatever.

They released to your group, for example, a study of the penetration of the various Buffalo, Toronto and Hamilton stations in the Toronto Metro area, and the document before the committee, as we understand it, refers to the March, 1974, survey—the BBM—where, for example, they show Global reaching 37 per cent of the adults in Toronto,

once or more often per week. In January of 1976 Global's figure was getting close to 60 per cent, and was a 60 per cent increase. CITY Television has grown substantially—they have reached some 40 per cent of the Toronto market now, and are soon going, at the end of this month, to the CN Tower, where their signal will materially improve.

The point we make is that our audience now equals the Buffalo stations, because another area of misunderstanding, we suggest, is that it must be pointed out that Canadian advertisers, when purchasing Buffalo, have not too many opportunities to purchase prime time, meaning 8 p.m. to 11 p.m., because that is when the three Buffalo network stations program their network shows, and "All in the Family", or whatever the program is, is a network show sponsored by U.S. network advertisers. The main inventory open to Toronto advertising agencies in Buffalo is the period, let us say, from 4 p.m. to 8 p.m., and after 11 or 11.30 p.m. From 4 to 8 p.m., in the Toronto market, or 4 to 7.30, Global is now a good second, and CITY Television, from 4 to 6 p.m., is beating the Buffalo stations. So the audience growth has been major, primarily because two companies decided to spend the money to get the kind of programming that would attract viewers away from the U.S. stations, to give the advertisers the kind of inventory they demand.

I have with me, and will distribute, a rating document that was prepared for advertising agencies. I might not have enough copies, but it does show in considerable detail the situation as it relates to Toronto, Hamilton, and also, to Buffalo. Perhaps someone would like to pass those around for your files.

Senator Smith (Colchester): May I ask how long the company the witness represents has been the owner or controller of Global?

Mr. Slaight: Two years, since April of 1974.

Senator Smith (Colchester): And what was the rating of your comparison with the Buffalo stations at that time?

Mr. Slaight: There are different ways of looking at ratings. They can be very complex, and I do not want to sound simplistic about it, with certain over-all numbers. I am simply quoting the ICA material here.

Global then had 37 per cent of the adults per week viewing once or more often. This is basically a meaningless figure. You do not sell that to advertisers, you sell them rating points, but using their number, that 30 per cent with the Global has grown to about 60 per cent, which is a 60 per cent increase.

Senator Desruisseaux: In what space of time?

Mr. Slaight: Two years. That is a 60 per cent increase. Another way of looking at it, and the way the time buyers would look at it, is that our audience has not gone up 60 per cent, it has doubled.

Senator Smith (Colchester): Using that standard, what are the figures?

Mr. Slaight: Which standard, sir?

Senator Smith (Colchester): The standard on which the buyer of time will make his decision to buy.

Mr. Slaight: Let us take the share of audience—that is, of any 100 sets turned on. In Toronto, we would divide that in percentage terms. The chart in the middle bottom row in

the material I have passed out, for example, shows that from 4 to 6 o'clock in the afternoon, which is a normal time to purchase Buffalo inventory, CFTO Toronto is No. 1, with 20 per cent of the audience; Global is No. 2, with 17 per cent of the audience; CITY is No. 3, with 12 per cent of the audience. Then comes Buffalo's WKBW, with 11, WBEN with 10, WGR with 8, and then CBLT and CHCH.

From 6 to 7 o'clock at night CFTO has 25 per cent; Global has 21 per cent; CBLT has 16 per cent; CITY has 6 per cent; and Hamilton has 5 per cent; and then comes WKBW's 4 per cent, WGR's 3 per cent, and WBEN's zero per cent.

Senator Desruisseaux: Are those in prime time?

Mr. Slaughter: No. I make the point again that network programming consumes three hours of prime time. Then the only time the Buffalo station has the right to sell is, as they call it, between the breaks, that is, between the programs, in effect. They must have that time available for the U.S. national selective advertiser, for their own regional and retail advertisers, and for the Canadian advertisers. There really is not that much inventory they can buy between 8 and 11, which is prime time; but in prime time, for example, the Global audience has doubled in the last couple of years, CFTO has 20 per cent, CBLT has 13, Hamilton has 13—I am sorry, one Buffalo station is ahead: WKBW, is in second place with 15 per cent; but then comes CBLT, and Hamilton, and then come Global, WBEN and WGR are deadlocked.

Senator Desruisseaux: Have you the inventory of prime time?

Mr. Slaughter: We have a great deal of prime time inventory available. We are our own network. In other words, we do not have someone else's programs consuming an hour, and using their own commercials. We sell all our own commercials.

Senator Desruisseaux: Let me put it to you another way. What percentage of your prime time is taken, or booked?

Mr. Slaughter: It depends on the time of year, because summer, of course, is less active.

Senator Desruisseaux: But on average?

Mr. Slaughter: One average, I would say 75 per cent. Not 100 per cent.

Senator Desruisseaux: You do not have far to go, then.

Mr. Slaughter: Yes, but there is a big difference between 75 per cent and 100 per cent.

Senator Desruisseaux: It depends on the season. I am just putting that forward from knowledge.

Senator Laird: Do you have Canadian programs in prime time, or are they all imported?

Mr. Slaughter: No. We abide by the CRTC rule, and I think this must be very strongly emphasized. We are not on parity with the Buffalo stations. We must abide by regulation, and I happen to agree with this—I might disagree with the percentages, but I agree with the concept—that every Canadian private station must have 60 per cent of the hours between 6 p.m. and midnight, on average. The Buffalo stations do not have to do that, so they can take a very popular program, like Mary Tyler Moore, or whatever it may be, that gets a huge audience, and we have to put against it, at certain times, a Canadian program that, in

most cases, will not draw as large an audience, unless we have the money to do better Canadian programs.

Senator Laird: That is what I was getting at.

Mr. Slaughter: I did not stage this, although it would appear so, but there is an article in yesterday's Toronto Star by Jack Miller. Global released its new fall program schedule, and, gentlemen, it was built and budgeted and planned over many, many months, assuming C-58 would be law by now. In the meantime of course we made commitments.

The headline in this article from the Star is, "Prime-time Canadian programs increased in Global's schedule." He then goes on to say:

Global TV has pencilled in a prime-time schedule for the fall which includes significantly more programs from independent Canadian production companies than it carries now.

The shift should launch the Ontario network back toward the grand promise it originally offered, before its 1974 financial crisis—that it would be a major booster of a flourishing private programming industry in Canada.

That may be slightly overstated—we are not going to save the Canadian independent production industry all by ourselves; but we are putting substantially more dollars into our prime time Canadian programs this fall, so we can compete better with the imported shows.

Senator Laird: And so you can produce Canadian programs?

Mr. Slaughter: Yes, but first we need the money to do it.

Senator Lang: I wanted to be sure I understood what Mr. Slaughter was saying a few moments ago in connection with the recent success of CITY and Global in the Toronto market. If I am not mistaken, I think you said, Mr. Slaughter, that that success can be attributed to the fact that the owners were prepared to put sufficient moneys into obtaining attractive programs, and that money was put in, I assure, to meet the competition of the Buffalo stations.

Mr. Slaughter: That is right.

Senator Lang: What would have been the course of development of those two stations if the Buffalo competition had not been extant?

Mr. Slaughter: Global would probably not have gone bankrupt the first time. I should point out that two years ago Global lost \$15 million and last year it lost \$5 million. This year it will lose some money. But since its inception, Global has lost in excess of \$20 million. If we translate that to a U.S. corporation with 10 times the population, you could say that we are looking at a company which has lost about \$200 million by American standards. If Bill C-58 had been in existence with various recourses for Canadian independent television stations to count on more revenue in the earlier stages, they could have begun by purchasing better programs. As you can imagine, Mr. Bellman has 60 investors in his new company and their decision was based on the question: Do we spend \$3 million and get this audience, or do we spend \$8 million and get this audience and hope that the revenue comes back? Both CITY and Global in our own separate ways have been forced, to survive, to spend more money than we really wanted to. But it is coming back in increased audience, and with Bill

C-58, and we plead with you for the early implementation of Bill C-58. We believe we are here to stay and that we can be a productive member of the independent community.

Senator Lang: Would you say that you are now economically sound?

Mr. Slaight: No, senator, I would not.

The Chairman: Why?

Mr. Slaight: As you know, and as I understand the regulation, the advertiser today may purchase a one-year contract on any Buffalo station without fear of re-examination of that particular contract or cancellation of that contract when the act comes in, because I understand that the broadcasting portions of Bill C-58 will not be retroactive to January 1—so Buffalo today is out dumping again and cutting Toronto rates. There was a presentation by this group in November at which time the three Buffalo network affiliates said, and I quote, "Our rates moreover are substantially higher per unit of audience than are the rates charged by the Global network of CITY-TV whose spokesman Moses Znaimer has been making the dumping complaint." Now we know for a fact that in their appearance last November the Buffalo stations got together and raised their rates from the dumping level that was going on some months earlier in 1975, and in the spring of 1975 the Buffalo stations were selling their time for something in the range of \$30 to \$40 per women's rating point versus the Toronto norm at that time of \$60 to \$65, and that \$60 to \$65 figure was being charged by Global and, I am sure, by CITY. They raised their rates to equal the Toronto cost—and this was by an interesting coincidence—about the time they appeared and made this statement and held it for a few months. Today a major Canadian advertiser signed a large contract with one of the Buffalo stations. They bought this station for the fall at roughly \$55 per women's rating point while Global's costs for the same audience was \$70.

Senator Desruisseaux: Excuse me for interrupting, and I do not mean to be inquisitive, but it is just that we have to be informed. How many Buffalo stations do they have competing?

Mr. Slaight: Seriously competing with the Toronto market?

Senator Desruisseaux: No, no, in Buffalo—amongst themselves.

Mr. Slaight: Four commercial stations—three networks and one UHF, Channel 29. But Channel 29 is not now a significant competitor because you can only get it on cable converters, but as more people get converters they would also become a threat that we suggest would be cancelled with the early implementation of Bill C-58.

Senator Lang: Do the Toronto stations penetrate into New York State?

Mr. Nichols: At the present time the signals do not penetrate the northern part of New York State, mainly due to the existence of the escarpment which tends to cut off the signal. But when they go up on the CN Tower they probably will make some penetration into the northern part of New York State.

Senator Lang: How many Toronto stations will be moving to the CN Tower?

Mr. Nichols: All of them.

Mr. Slaight: Not Global; we cannot afford it.

Senator Desruisseaux: Will they penetrate as much as the Buffalo stations penetrate Canada?

Mr. Nichols: Well, in theory they could, but if you examine the history of television in the Toronto market and the Buffalo market, what happened of course is that three U.S. network stations were established very early in the days of television, and there was only one Toronto station. There was a station in Hamilton which was affiliated with the CBC. So there was basically only one Canadian service available. As a result, Canadians in Toronto raised antennas on their roof-tops to get the U.S. stations. The Buffalo people did not; they had their own three network stations and they were quite happy. As the years progressed, of course, cable has been developed in Canada and has grown very strong and very well. That is still not true of the United States. I do not know if there is a cable system in Buffalo. There are small systems in some of the surrounding areas that are relatively insignificant. But there is a much broader choice of television channels for the Toronto people than there is for the Buffalo people. The point I am getting at is that even though the signals from Toronto will penetrate northern New York State, it may well be that they cannot be received without cable or a roof-top antenna, and both of those factors do not exist to any great extent in the Buffalo area.

Senator Buckwold: You are not selling advertising to American advertisers?

Mr. Nichols: I don't believe any of those stations have ever tried to do so.

Senator Buckwold: None of the Toronto stations picks up advertising in the reverse way?

Mr. Nichols: Certainly in the years I was with CFTO, and that was less than a year ago, they never sold anything.

Mr. Slaight: That is correct at this time, as far as I know.

Senator Buckwold: Is that because you did not have time to sell?

Mr. Nichols: No, the fact of the matter is that in those days, and even today, the signal is not received and the Toronto signals are not significant in that market so there is really no audience.

Senator Buckwold: And your rates might be higher?

Mr. Nichols: I believe CFTO's rates are higher.

Senator Buckwold: Have you ever made any serious attempt to go to advertisers in Buffalo and say, "Use our station."?

Mr. Slaight: Not to my knowledge.

Mr. Nichols: Again, CFTO used not to do that. It had its own advertisers to service first and, as I say, I don't think there was an audience there that they could have generated sales for anyway.

Mr. Slaight: There would be plenty of advertising revenue in Canada if the Buffalo stations did not come in poaching.

Senator Desruisseaux: Have you any figures as to what proportion Buffalo, for instance, would take away from Canada?

Mr. Slaughter: How many dollars?

Senator Desruisseaux: Yes, in dollars.

Mr. Slaughter: I cannot speak as of this point in time, the figure we know, as of not too many months ago, was in the range of \$10 million going over to Buffalo alone.

Senator Desruisseaux: Half the total amount of advertising over the air in TV?

Mr. Slaughter: We have said in earlier submissions that the best estimates of the total number of dollars flowing over United States television nationally is \$20 million, and roughly half of that we believe comes from Toronto. From more recent presentations, including that by Madame Sauvé, we believe that the percentage the United States stations in general are obtaining of total Canadian television revenue remains relatively consistent, around the 10 per cent mark, which is a lot.

Senator Buckwold: How are you going to handle it? You are sold out now.

Mr. Slaughter: No, we are not sold out; absolutely not.

Senator Buckwold: On your prime time.

Mr. Slaughter: No, we are not.

Senator Buckwold: You could take that kind of additional volume?

Mr. Slaughter: There are five Toronto stations alone, not just Global. Again I can only speak for our company, but I believe in the general industry sense the stations are not sold out. Mr. Nichols again, from his recent move from CFTO, could probably add to that.

Mr. Nichols: Another point that is very important to make is that all these dollars we are talking about in that particular market are not going into prime time. As Mr. Slaughter pointed out earlier, there is not that much prime time available on those Buffalo stations either. A lot of those dollars are being spent in daytime and late night. I recall a specific incident when I was with Mr. Bassett and somebody suggested that he was sold out and couldn't handle his advertisers. He said, "Send them to me and I'll show you how I'll handle them." He has still got time to sell in other than prime time.

The Chairman: If this bill becomes law there will be no competition from the Buffalo stations, is that right?

Mr. Nichols: I do not think that is necessarily right, sir. I think the Buffalo stations may well decide to lower rates to make it still attractive for Canadian advertisers.

The Chairman: Short of doing that, there is no way you can see that they could maintain their rate schedule and sell in the Canadian market?

Mr. Nichols: No, sir.

The Chairman: So this bill would enable you, subject to that exception, to get rid of competition from the border stations?

Mr. Nichols: From the border stations?

The Chairman: Yes

Mr. Nichols: I suppose that is true in the border stations. There certainly is a lot of competition in the Canadian market. I sit here today representing the Ottawa station. This situation is illustrated on the little piece of film that we have for you. There is a station in Watertown, New York, that could not be seen in this market if it were not brought in on cable, yet that station comes in and actively sells in the Ottawa market. We have some evidence of it, if you care to see it. We have also monitored the station to try to get some idea of the level of activity that station is carrying out at this time.

The Chairman: At this time, what volume of advertising that would otherwise be available to the Canadian stations goes to the Buffalo stations?

Mr. Nichols: I think all you can really talk about is in terms of dollars, and it is estimated at somewhere around \$10 million right now.

The Chairman: What would be the dollar value of the total market?

Mr. Nichols: The Toronto market?

The Chairman: Yes.

Mr. Nichols: At the present time I would think it is somewhere around \$40 million to \$50 million. I am taking in the Hamilton station and Global.

The Chairman: Unless the Buffalo stations lower rates, the only effect of the bill would be to give you a chance at the \$10 million that the Buffalo stations are now getting, is that right?

Mr. Nichols: That is right.

Mr. Slaughter: The entire \$10 million would not flow back to those five Toronto-Hamilton stations.

The Chairman: The point was that I said it would give you a chance.

Mr. Slaughter: Yes.

Mr. W. E. Bellman, Vice-President, Western Approaches Limited: I would like to speak about the Vancouver market. So far I think you have been concentrating solely and exclusively on the Buffalo stations.

The Chairman: We should not do that.

Mr. Bellman: As a westcoaster I think we should have our two cents' worth. We in Vancouver are Canada's second largest English-speaking city, and we have, in company with us, the one single station that takes the largest amount through one station out of Canada anywhere in the country. KVOS takes in the neighbourhood of \$6.7 million a year specifically out of the Vancouver market. We are putting together a new station, which represents a combined investment of many millions of dollars from Canadian investors, in the hope that we can be successful. When we go on the air in September this year as an independent station we will have available for sale to Canadian advertisers between \$11 million and \$12 million worth of inventory, which we have for sale to Canadian advertisers, and must sell to stay alive—not all of it, but a substantial portion.

The Chairman: In order to sell you must get an audience.

Mr. Bellman: We expect to get an audience, but the audience is badly fragmented because of the number of American stations. There are actually four American networks, and several Canadian stations as well, so we are the most highly cabled community in the world; 85 per cent of our homes are on cable, which means a greater degree of fragmentation of audience and a greater duplication of choice of channels. We represent the last independent station established by the CRTC with the hope of increasing Canadian production and Canadian programming. We are undertaking a very comprehensive local programming this fall in Vancouver.

The Chairman: Mr. Bellman, the other day we were told, when we were dealing with this subject, that there was a very simple purpose to be achieved by this bill, and which it would achieve, which was that the advertising revenues that are presently going to the United States will go to Canada. Is it that simple?

Mr. Bellman: I don't think it is that simple. I think it would be one of the factors that will help Canadian television.

The Chairman: You still have to sell the advertising?

Mr. Bellman: Oh, very definitely.

The Chairman: And there are other forms of advertising?

Mr. Bellman: Yes.

Senator Manning: Could you give us any indication of the percentage of Canadian advertisers on, say, Buffalo stations that also advertise on your stations in the Toronto area?

Mr. Slaight: The only thing I can say in that regard is that a few months ago—we have not done monitoring recently—we counted 72 different Canadian advertising campaigns on the three Buffalo stations over a week or two-week period. I would say that probably not all, but a good majority would also have been on some of the Toronto-Hamilton stations as well.

Senator Manning: Isn't this a very pertinent point on the allocation of these dollars if this bill goes through? Is it not reasonable to assume that a Canadian firm that is now advertising on, say, a Toronto station and also Buffalo is not going to increase its advertising on the Toronto station to any significant extent by virtue of not being able to advertise in Buffalo?

Mr. Slaight: No. A couple of things have happened. Remember, since discussion began on Bill C-58, Global has become a very major factor in the market, to equal or exceed a Buffalo station. CITY has grown significantly in the same time period. All the repatriated dollars will not all come back. Buffalo will be able, if they wish to lower their rates, to equalize the tax deterrent, some of the returning dollars could conceivably go into another media. That we think, and suggest, is good for Canada. A good percentage of those dollars would go to Toronto-Hamilton television stations. Remember, until very recently there were only three of them, and now there are five commercial stations. We can add to that the CBC; I should not exclude them, although we are talking about the private sector. There are six commercial outlets.

One further point, to conclude, is that a major advertising agency, in fact, a branch—I will not identify them—of

a gigantic international agency; their vice-president and the immediate director told me a few months ago—when our audience was lower and CITY audience was lower than it is now—that anyone who says that you cannot gain equal efficiency by just buying the six Toronto-Hamilton stations and not buying Buffalo is just being lazy. You can gain equal efficiency by just purchasing Canadian television. So, if they want to bring their dollars across, they can equal the cost efficiencies on cost per thousand on ratings.

The Chairman: What we have been told by you, Mr. Slaight, and by Dr. Camu and maybe by Mr. Nichols as well, is that, at least, the share of the Canadian advertising that goes to Buffalo would be about \$10 million at the present time and the total dollar volume in that market would be about \$40 million.

Mr. Slaight: I think that would be about right.

The Chairman: What we are talking about, if this bill becomes law, is who is going to get the \$10 million and how much of it is going to be available in continued form for the television stations, in the form of advertising. Is that the question?

Mr. Slaight: It is one of the questions, yes. I think that \$40 million could be low. I do not have the information. Mr. Nichols said \$40 to \$50 million.

The Chairman: Would you say \$50 million?

Mr. Slaight: \$50 million, but I would suggest of the \$10 million, with some staying there, some slippage into other media, we probably would see repatriated not \$10 million but \$6 million or \$7 million of the percentage of \$50 million.

The Chairman: Whether it is \$6 million or \$7 million or \$10 million, as I understood the evidence you people gave, it would mainly not be in prime time?

Mr. Slaight: No, in Canada it can be in prime time. We are saying that in the States because they are network stations and cannot sell that time themselves in Toronto or Buffalo, or cannot sell too much of it —

The Chairman: What we are talking about is the dollar amount of the market that is being taken by the Buffalo stations now. You gave me a figure, at least one of you did, of \$10 million. You say now it may be \$6 million or \$7 million.

Mr. Slaight: I say the returning dollars would be in the range or \$6 million or \$7 million. We would not get it all back; some will stay there.

Remember, when the Buffalo stations have time to sell, it's like a hotel room you do not rent out; you never see that money again. They might as well cut their rate in half to equalize the tax situation and there will be Canadian dollars staying in Buffalo. We have a tough time estimating (a) how many dollars will flow back, and (b) how many will stay in television.

The Chairman: I am sure you have a pretty good idea of the dollar value of the amount of advertising that is presently being enjoyed by the Buffalo stations, and the extent to which it is in prime time and the extent to which it is not in prime time. I am sure you have a pretty good idea of that, if you wanted to make an estimate.

Mr. Slaight: Frankly, sir, a representative of a national selling organization, and, for example, our group, the Paul

Mulvihill, Co. used to be the sales agents in Canada for one of the Buffalo stations and then moved across the border to Global. They would be the kind of people who would have that kind of input. It is a tough question, without talking to them.

The Chairman: I suppose the advertisers who are coming in tomorrow morning may have the figures.

Mr. Slaight: They would have to get together and do an averaging on it.

Mr. Bellman: There is another important point and that is, normally speaking, an advertiser does not buy prime time alone. Stations tend to sell a combination of prime time plus supper time plus perhaps day time to give him an average cost per rating, which is very different; otherwise, you may sell all your prime time and have only day time left. Therefore, most time in sold in combination so that prime time is like the cream in homogenized milk.

Senator Desrousseaux: It is a way to force them to pay a little more.

Mr. Slaight: It is also a way to give a wider range of advertisers a fair crack at your inventory.

Senator Desrousseaux: If you can get them.

The Chairman: You mean, I cannot get a figure that I am looking for?

Mr. Slaight: I know this, that the Toronto stations—I am taking Global, CITY, CFTO Hamilton—are convinced among ourselves that the biggest area of Buffalo television, for the using of Canadian commercial time, is 4 p.m. to 8 p.m., not in prime time.

The Chairman: Well, you have told us how important this bill is and I am trying to assess the importance, and that is the purpose of my question. I am trying to determine, in dollars, what you are going to be able to get at, with the time the Buffalo stations are presently enjoying.

Mr. Slaight: Our guess, sir—maybe I should say my guess, because you could have three or four opinions on this—would be in the range of \$6 million to \$7 million.

The Chairman: That is the value that would be available

Mr. Slaight: Subdivided by us.

The Chairman: Of course, you would have to get it.

Mr. Slaight: That is right.

The Chairman: That is the value that would be available if this bill becomes law?

Mr. Bellman: In Toronto only.

The Chairman: Well, I said for the Buffalo stations. Does that mean Toronto?

Mr. Bellman: Yes, but I was afraid you might think that was the total benefit to be derived from this bill.

The Chairman: No.

Senator Desrousseaux: What is the comparable situation in Vancouver, and how many stations have you got? Is there an American station that is a member of your association?

Dr. Camu: There are no American stations which are members of our association.

Senator Desrousseaux: Even the Canadian one?

Senator Laird: He is speaing of KVOS.

Mr. Bellman: It is an American station owned in Miami.

Senator Desrousseaux: Some people have told me differently. I do not know how true that is.

Mr. Slaight: It is not true.

Mr. Bellman: There are many things unique about that station. It is the only American station on the border that derives 90 per cent or more of its total revenue from Canada. It could not exist but for living off the Canadian market. Of the total amount of money being taken from Canada, it is the only American station taking any measurable amount of money out of Vancouver, and it is taking somewhere in the neighbourhood of \$6 million to \$7 million out of that market. When Bill C-58 is passed, I think it is possible that that one station could afford to cut their rates in half and continue to take some money from the market in Vancouver.

Senator Desrousseaux: Are they making a profit?

Mr. Bellman: They are making more of a profit than most of the stations in the United States.

Mr. Slaight: It is probably the highest percentage of profit of any television station in North America.

Senator Laird: Seattle does not touch you?

Mr. Bellman: What we are aware of, it would amount to nothing.

Mr. Slaight: I would point this out because there appears to be confusion about KVOS. I think Senator Perrault, back on March 30, summarized it very well. He said:

Significantly, while it claims to be a good corporate citizen of 20 years standing, even its Canadian sales entity, KVOS-TV B.C. Limited, is wholly owned by KVOS Television Corporation a Washington corporation which in turn is wholly owned by Wometco Enterprises Inc. of Miami, a Florida corporation.

Now, this Florida corporation, Wometco just announced a 3-for-2 stock split. At the end of their fiscal year in January, they had a net income of \$11.6 million on total sales of \$180 million. We would suggest of their total profit of \$11.6 million, as much as three or more came from that one station. Global was in the process of losing \$5 million that year. Mr. Bellman was in the process of trying to convince 60 investors to invest \$5 million —

Senator Desrousseaux: If I may interrupt at this stage, I would ask you what part of the gross revenues came from Canadian advertisers.

Mr. Slaight: Of the company's gross revenues of \$180 million the total would be maybe —

Mr. Bellman: Between \$6 million and \$7 million.

Senator Desrousseaux: That came from Canada?

Mr. Bellman: That came from Canada, through KVOS, between \$6 million and \$7 million.

Mr. Slaight: Of their total corporate sales of \$180 million, let's say \$6 million or \$7 million, but of their profits of

\$11.6 million we are assuming somewhere in the range of \$3 million would have come from that.

Senator Desruisseaux: How many stations do you have in Vancouver?

Mr. Bellman: Totally on cable?

Senator Desruisseaux: In the greater Vancouver area?

Mr. Bellman: If you are talking about cable, it is different than the number of licences that serve Vancouver. Of the Canadian stations, there is a CTV station, a CBC station, a Victoria CBC affiliate which will become a CTV affiliate—it is carried on cable at the moment. There is a community channel, a normal cable-fed channel and stations in Seattle of ABC, CBS and NBC plus a PBS, the education channel, plus KVOS, Bellingham. Only one of those four commercial and one non-commercial American stations are selling to Canadians and that one is taking more money than any Buffalo station or any other station in this situation.

Senator Austin: I would like to address a few questions to Mr. Bellman with respect to the Vancouver market. First of all, I would like to ask you: Are you under any particular disability by virtue of the fact that you will be on a VHF channel?

Mr. Bellman: UHF, yes, we will be. Yes, we are. We had applied for a "V" and a "U", with preference given to the "V", because channel 10 was also being considered for the CBC. We were given UHF. We think the difference is the difference between the 85 per cent of the homes that are on cable and those that are not. If we had been on VHF we could have reached the 15 per cent how are not on cable. With UHF we work at 15 per cent less than our capacity because we don't believe that with that kind of cable saturation there will be a very large listening audience out there directed to a UHF station, in view of the fact that we are the first and only UHF station in the area, so we are, as I say, working on 85 per cent of full power by having UHF, and that would never be possible but for the fact of cable and its high penetration, so we do have a disadvantage by being a U, but that 85 per cent is largely made up because we are on cable.

Senator Austin: As you know, under the bill which is before us, Bill C-58, Part III, which is the part that affects broadcasting, will only come into force on proclamation. Can you describe how you would like to see that proclamation in terms of what would be the best time to ensure that you pick up advertising revenue and market?

Mr. Bellman: I know the other two gentlemen here will have different views from those I have, because they are already on the air, and we are not. In so far as our own specific position is concerned, we would like it to be effective—in other words, be in effect—not a year from proclamation, but when we go on the air, which will be in September, because at that time we will have between \$11 million and \$12 million worth of time for sale in Canada, to fund us for presenting any Canadian programming that we must do. If we had our choice, therefore, we would say that to be effective, not later than September 1. There is a bit of confusion there, because as I understand it, it would become effective one year after proclamation. I do not mean one year after proclamation, I mean that if the one year had ended September 1, that would have been my choice.

Senator Austin: What will happen to you in the period of one year after proclamation? From the evidence given by the minister here, Madame Sauvé, she believes that that would provide a one-year transition period for advertisers. What do you think your experience will be?

Mr. Bellman: We are going to have to fight our way through a much depleted market that would otherwise be available to us. If the KVOS revenues go from \$6 million or \$7 million down to \$5 million or \$4 million in that period, it will gradually be getting better for us as the 12 months goes by, but not nearly as good as it would have been if it had been effective on air day.

Senator Austin: What would your experience be with respect to advertising sales relative to the coming September? Have you found a good market?

Mr. Bellman: We are very optimistic about it, but it is too early to give you a more specific answer than that, because our program schedules as printed were released on Monday of this week, or yesterday. Our sales manager went to Toronto on Monday, our sales people in Vancouver are on the street—we have three or four people—and I could answer that better in 30 to 60 days' time, but just in general, the first year of operation for any station is by far the toughest. That is why we are going to be suffering under a very severe handicap on account of the lateness of this bill.

The Chairman: You spoke when you were answering Senator Austin just now about time for sale. You said you would have, in September, \$12 million worth of time for sale. What is your estimate of how much of that you would sell?

Mr. Bellman: It is very difficult to be exact about that, because the factors are not all in yet. Our sales force is only just beginning to get feedback.

Mr. Chairman: I depends, too, on your audience.

Mr. Bellman: Yes, it depends on the audience we get. But I know our break-even point. We must get \$5 million to \$5½ million, or we will be losing money, and that is very difficult to do in the first year because the first year is a very slow climb. We are optimistic that we can come within \$200,000 or \$300,000 of that within the first year, but six months from now, who knows what the picture will be? We do not know. We are going to do everything we possibly can to lose as little money as we can in that first year.

The Chairman: I would expect you to try not to lose money.

Senator Austin: Could Western Approaches have raised this money and could it have been in its present position if you had not felt reasonably certain that C-58 would be passed?

Mr. Bellman: When we prepared a brochure for our prospective investors, that was one of the factors we laid heavy stress on. I cannot remember the wording, but essentially we pointed out that this bill had already been introduced, and that the chances of it being passed were extremely good, and that therefore this would increase the attractiveness of the investment as a medium and long-term operation.

Senator Austin: Could you survive if this bill did not pass?

Mr. Bellman: Probably.

Senator Manning: To come back for a moment to this recapture of the advertising dollars now going to the United States, let me take the Toronto situation again. Is it a correct assumption that the Canadian advertiser places advertising on the Buffalo stations more on account of the larger and more diversified audience than because of any great differential? If I follow what you said earlier, the situation is this: if you advertise on a Buffalo station, those stations have a Toronto audience, which, up until very recently, has been larger, even, than the Toronto stations, a situation which is now changing. In addition to that, of course, it has a very large American audience. You said if it was on the Canadian stations, that signal does not go into Buffalo to any great extent. My point is, is the reason for Canadians placing their advertising there largely because of a larger and diversified audience rather than because of any difference in price?

Mr. Slaight: A lot of it is due to 20-odd years of habit, Senator Manning. They have been buying Buffalo, and it has become a way of life in the industry. The agencies will point out with, I suggest, complete accuracy, that they have a tough profit squeeze problem of their own. If they have established a certain kind of buying pattern that works, it is a little more trouble and a little more costly to punch new information into the computer and to train their staff to "think Canadian", so some of it is habit. There is an audience in Buffalo, there is no disputing that, but there is as good an audience in Canada also.

Senator Manning: But in the one case you have both audiences.

Mr. Slaight: We do not, incidentally, think that, for example, the Olympic coins campaign, aimed at Americans, should be involved in this situation. There should be some kind of an exception made for the purchase of U. S. television, whether it is along the border or not, to sell a product to Americans. It may be a Canadian made snowmobile that is for sale, or maybe you may be advertising in Buffalo to bring Americans to a Canadian National exhibition. There should be exceptions of that nature. But when they are buying a Buffalo station only to reach a Canadian audience, we object.

Senator Manning: But this \$10 million you are talking about must include a lot of advertising by companies which are international in their sales, and are just as anxious to reach an American audience as a Canadian audience. Is that not part of the estimate?

Mr. Nichols: That is not part of the estimate at all. I wonder if I could show you a few minutes of advertising film that we got from a station located about 80 to 100 miles west of here. It will show you very clearly that these people were advertising very strictly for an Ottawa audience. There is no appeal made to audiences in Watertown or adjacent cities in New York, at all. We are talking about commercial advertising dollars, and we are not talking about Toronto. As the proliferation of cable occurs throughout this country, and U. S. stations are extended to Canadian markets through microwave, you have the same situation in Montreal. There is even a station now south of Montreal that carries one commercial ad that we know of designed for the Ottawa market—not the Montreal market, not the New York, but the Ottawa market; and the more opportunities they get to get into these markets through

cable they are taking advantage of it by trying to sell advertising in the markets they are carried into.

Senator Manning: I can readily understand that. The whole point I was concerned about is that I wondered if you had any accurate assessment at this time of the extent to which the amount of these Canadian advertising dollars will be spent in Canada after this bill goes through, or the extent to which that reversal flow will be offset by the fact that this advertising no longer reaches an American audience, and advertisers are not allowed to reach the diversified audience I mentioned before.

Mr. Slaight: There are a couple of factors regarding that, one of which has not been touched upon until now.

The last time I looked at the figures, the per capita expenditure of all advertising in the United States was roughly double the per capita expenditure on advertising in Canada. Another area—and we are not belabouring this—is the spillover problem, where many millions of dollars—and again we cannot estimate in this particular field—are not being spent on Canadian television because a multinational corporation selling a soft drink, or a toothpaste, or whatever it may be, can purchase Buffalo from its New York agency, and, in effect, get a free ride into the Toronto-Hamilton, Golden Horseshoe community. Therefore, why should the same client, or the same company, spend a few million dollars more out of its Toronto office? Now, that spillover situation is not germane to this discussion, but there is a vast number of millions, as I said, that we cannot total. We will never see those dollars. We will never see those dollars and there is nothing we can do about the situation except to put an ocean between us. The other part will probably come back.

Senator Buckwold: But advertisers go, in my naive way of thinking about looking at television, where there is a viewing audience. I mean, the ratings have to influence the advertisers. In other words, the money doesn't go there simply because it is an American station but simply because people are watching that station. I was impressed by what Global has done in trying to improve their audience ratings, but in the end is it not really the quality of the product that you are showing that is going to determine whether you get that advertising or not?

Mr. Slaight: Certainly, but if our product and quality is as good as Buffalo, why should the money go across there? Why should it not stay here to help us produce the Canadian shows that the government insists that we do? The Buffalo stations, the ones that said they were selling higher than Global and CITY when they were selling lower, also say that CITY-TV and Global would not benefit by the enactment of Bill C-58 because their circulation will not increase as a result of it. That is simply not true. As more money returns to Canada, then we can spend more on programming to increase our audience. We have done it so far without those particular dollars but we are starting to run out of money.

Senator Buckwold: I was interested in our friend from Vancouver and the new station that I gather is moving in. How do you plan to capture the Canadian audience that is tuning into the American stations?

Mr. Bellman: I think you have to understand a little bit about the city of Vancouver to believe what I am going to tell you. But we happen to believe, as people who know the city, that there is a very intense interest in the city of Vancouver on the part of Vancouver people. This is evi-

denced by the fact that there are more talk shows and more open-line shows there than anywhere else in the world.

Senator Buckwold: There are many people with nothing else to do there!

Mr. Bellman: We are keeping in out of the rain, maybe; but, in any case, we do find a preoccupation with it. I was involved, as was one of my partners, in the then new TV station in the first live local television show ever done in Vancouver called "Almanac." We had staggering ratings for that show—unbelievable. Nowhere else in the country do I know of anyone getting that kind of audience for that kind of show. Since then my partners have been on to doing the Steven Allen Show and various things in the States and have acquired a great deal of experience and won awards and do know the television production end. I have been involved in broadcasting. We think we have the knowledge and experience to do for Vancouver what Vancouver wants to see, and that is good local television about Vancouver affairs. We do two hours a night on Vancouver affairs, which is something like television has never been before. We say that with a great deal of confidence and enthusiasm because the time has come for stations to become much better locally in coverage than they have been. We are an independent station and we are not affiliated with any network. Therefore, we have the flexibility to do what we feel is the right thing to do, but that takes money. It is a lot tougher to find the money if you have someone like a pirate ship sitting off your coast draining \$6 million or \$7 million out of your market without putting a thing back into it in the way of production. We need that money to finance the kind of programming we are going to do. This is a new trend that is coming into television. There are new stations in San Francisco attempting the same thing this fall. They have arrived at the same conclusions and perhaps for the same reasons, but we are going to spend a lot of money on becoming a very different kind of television in Vancouver. Whether we will be successful or not, we will not know for a year or so, but we have every confidence that we will be. That was the period from 7 to 9. In the period from 9 to 11 which immediately follows that program, we have put a tremendous amount of effort into buying the best American shows available to us. We have three of the top four rated shows from three different U.S. networks running as an example during that period. We have 14 hours across the board of the best we can buy of American shows. We have earned the right, through our Canadian content, to get the audience that we hope to start off with our own show followed by American blockbusters which would give us an overall average rating which we can go out and sell to bring in the total revenue that we need to bring a new kind of television to Vancouver. And that is, I think, what the CRTC has been aiming at and a lot of broadcasters have been aiming at for a long time, to try to find the means to do this.

Senator Buckwold: I hope you succeed.

Mr. Bellman: That is why we need the dollars in our station to do what we hope to do.

Senator Desruisseaux: Mr. Chairman, I have one question for clarification purposes that I want to put to Mr. Bellman. How long ago was it that you decided to install this station?

Mr. Bellman: When we first put our brief together, it was in the summer of 1974.

Senator Desruisseaux: You applied and appeared before the CRTC, and you possibly submitted figures estimating your revenues for the future, and that you could on that basis justify the establishment of your station. They were then profitable. I am saying that because you said that your station would probably go under.

Mr. Bellman: No, I did not say that. I said we could probably survive, but when you say "profit," we hope to break even after five years of operation. That is a high risk factor. We expect to lose money for three years before earning it back and maybe being even by the end of five years. That is the kind of risk involved; we are not walking into anything that is easy. We are gambling that in five years we can turn this to the point where we have enough audience and enough revenue to continue from there on in a profit position.

Senator Austin: I understood you to say, Mr. Bellman, that you could probably survive even if this bill did not pass. Is that correct?

Mr. Bellman: Yes, I would like to enlarge upon that because we are very stubborn people and we are prepared to cut staff and hang on some way, but we will not be able to do as good a job as soon as we could with the passage of this bill, but I think we will survive. In fact, we are determined to survive.

Senator Austin: What will KVOS do to continue to earn dollars from the Canadian market?

Mr. Bellman: Unlike any other station on the border, they can cut their rates to the bone. They don't have a Bellingham rate card per se that amounts to anything, unlike Buffalo which has a level below which they find it difficult to go because they are selling time in Buffalo at the rate the Buffalo market deserves. But in Bellingham they can cut and cut and cut because they have no Canadian content obligation, as we have, and they have a very low-cost operation compared to ours, and there is no Bellingham rate card that they have as their floor.

Senator Austin: And you expect them to cut rates as much as they need to in order to prevent you from picking up the market?

Mr. Bellman: They can cut their rates in half and stay alive and, therefore, the bill will trim them down but it will not mortally wound them, I don't think.

Mr. Slaight: I think there is a moral situation among the Canadian advertisers including the multinationals who do, as we know, try to be good citizens of the nation in which they operate, and when the bill is enacted, even though there are shortcuts by buying at half the rates to equalize taxes, I suggest that a goodly percentage of them will go with the intent of the act and keep their dollars in Canada.

Senator Austin: You don't, however, expect KVOS to disappear or go off the air?

Mr. Slaight: I would like them to, so we could get Mr. Mintz to come to Global. He is one of the best television operators in North America.

Senator Davey: I would like to read from a statement made by Harry Boyle which appeared in the *Financial Post*. I quoted from this article previously in the Senate. I wonder if the witnesses would care to comment on it. He says: "Indeed, if all revenues from Canadian sources were removed from the Buffalo stations they would still be

highly profitable ventures." Would you care to comment on that?

Mr. Slaight: That is correct, Senator Davey, because they are a very major American market. Their counterparts in the United States—that is to say, other markets of similar size but without any influx of Canadian revenue—are very profitable. So what we are saying is that the Buffalo stations by similar standards in American markets have excess profits because of their Canadian revenue. It has all been gravy for them and they don't need it.

Senator Davey: Of the \$20 million we have talked about, how much of that is national advertising and how much of it is local?

Mr. Bellman: Virtually all of it would be national.

Mr. Nichols: I think it all depends again. If you are talking about the Buffalo market area, I imagine a lot of that would fall into a national category. Some of the breweries, for example, advertise over there, and some of the major national department stores, that kind of thing. When you get into some of the smaller markets, particularly like the Watertown situation, it is almost all local.

Senator Davey: Much of the talk at this committee has been about prime time. I am wondering, Mr. Slaight, if you would be kind enough to explain to the committee the advertising virtues or values of time that is not prime time. Are there not some national advertisers who actually prefer to purchase non-prime time? You have also referred to efficiency. Could you explain to us what you meant by efficiency, and exactly what cost per thousand means? What is a good cost per thousand?

Mr. Slaight: Are you talking about homes, are you talking about women, men, the 18 year-olds, the 49 year-olds?

Senator Davey: Bear in mind that the members of this committee are not sophisticated advertising time buyers. I wondered if you would explain the basis on which decisions are made to buy advertising on a particular station.

Mr. Slaight: I think you should direct your question to Mr. Nichols.

Mr. Nichols: I am not a sales expert, but it depends largely on the advertiser and what audience he is after. Some advertisers would be interested in buying a cost per thousand homes. I would think today he would probably be prepared to pay about \$4 per thousand homes. When you get into more specialized demographics, as was indicated earlier, an advertiser who is directing his advertising at women, particularly women in a certain age group, will pay up to \$70 per rating point in a market. I do not think there is a single standard. A record company that is selling records aimed at the younger generation is obviously interested in a younger audience and he would rather buy into those kinds of programs.

Mr. Slaight: Cost per thousand is different again from a rate point.

Senator Davey: The point I am trying to make is that there is non-prime time, which is exceedingly attractive to national advertisers. Is that not the case?

Mr. Nichols: Yes, that is the case.

Senator Davey: That is the point I am trying to make.

Mr. Slaight: Absolutely.

Senator Davey: You were quoting some CITY figures. Could we have a copy of those?

Mr. Slaight: The ones I quote are in the black brochure, the middle of the lower row. I think I quoted a 4 p.m. to 6 p.m. audience.

Senator Davey: What is the date of those?

Mr. Slaight: That was last fall. I brought it because we have not published anything quite that elaborate on the spring survey. I would suggest the figure would be parallel now.

Senator Davey: You made reference to the fact that the ICA are coming here. Some of us have seen their brief. I think maybe some of the rating figures are not up to date. They also talk about the stations being sold out in prime time. The point I want to make is that there is time which is not prime time, which is very saleable.

Mr. Slaight: I think probably all of us are not sold out in prime time. There can be the occasional month when, if you are not an alert time buyer and do not plan ahead but wait until the last moment, you will have problems getting into prime time. However, if you average it out over the year, the Canadian stations, and I suggest the Canadian networks, are not sold out in prime time. You can watch CBC, and many periods go by when they could have inserted a commercial but they ran out of promotions.

Senator Davey: Dr. Camu, I must say, as a fairly severe critic of the CAB, I want to compliment you on the job you have done since you have been directing the organization. I should like to ask you two questions about your brief. You say that United States border stations do not have the same social-economic requirements as Canadian stations. What are those social-economic requirements that you are talking about?

Dr. Camu: On the economic side they do not follow the CRTC rules; they follow FCC rules, which are not quite the same, they are not identical. On the social side, perhaps I could take the case of KVO5. In a small city like that they do not have the same obligation as a station operating in Vancouver and beaming at a very large audience. They are here in business, but to talk to a Canadian audience, selling programming and advertising. Their reaction is to make money first, instead of taking care of the various social aspects of the city and the metropolitan area they serve. If you compare these south-of-the-border stations, they come under one set of rules over which we have no jurisdiction at all. If we go back to the Canadian Broadcasting Act, one of the major objectives of our broadcast system is to promote the culture of our country, our traditions and our way of life. These people have no obligation like that; they are not subjected to this.

Socially, looking at the audience they are beaming at, they do not have the same restrictions, nor the same requirements or obligations as Canadian stations. For instance, I think a good case is that of Canadian content, which is imposed on Canadian stations. These other stations do not have that at all. Why Canadian content? It is a direct response to the needs of, and I think also the tastes, as well as what I would call the normal challenges of and responses to, the Canadian public. I could go on like that, but I think this explains a little why there are two sets of rules, but both stations do not come under the same sets of rules although they are beaming at the same audience.

Senator Davey: I do not think I am a particularly cynical fellow, but let me ask you this. What guarantee do we have that at least some of this revenue that goes to your member stations will find its way into Canadian programming rather than simply in increased profitability?

Dr. Camu: I have to agree with you, this is a risk. As you know, I have not been associated with the private world of broadcasting for more than two and a half years. Their reputation or image vis-à-vis the Canadian public has not always been good. In fact, on many occasions it has been said that any money coming back would be transferred into profits and cash and we would never see any input back into Canadian programming. After two and a half years I am pretty well convinced that this is not so. They are there for what I call a fair return; that is fine. I think they are very eager now to plough back more money into Canadian programming. It is a vicious circle. On one side there is the CRTC forcing them to do so, which is right, and on which they agree now. On the other hand, they try to get as much money as possible to improve Canadian programming. It seems very difficult to break that vicious circle. That is why, out of Bill C-58, any money we can get out to improve Canadian programming is good, even if it is a small amount, smaller than the percentages mentioned by the chairman a moment ago.

Senator Davey: You say in your brief that this comes at a time when demands are being made for greater regional participation. I knew that was true of the CBC. Is it also true of the private stations?

Dr. Camu: We feel it is an objective that has to be met.

Senator Davey: Is the pressure from the CRTC or from member stations?

Dr. Camu: There is some pressure from the CRTC, but it comes from our own membership as well. They feel that they should occupy a greater place in community affairs. This is their own feeling, and you will see this trend developing in the next two or three years.

Senator Davey: I have only one request, Mr. Chairman. These people were kind enough to bring a film, and I think we should look at it. I certainly would like to see it.

Senator Hays: Before we see the film, I should like to ask a question about the new Vancouver station. Do you feel that a station which is owned individually in the city it is going to serve will do a better job than the chain-owned sort of TV?

Mr. Bellman: I think it depends upon the calibre of the management the big company hires. A company can be a large company and hire a strong local personality, a person who is a strong factor in the community, who will work just as hard for the company as he would if he owned it. I would say that, all other things being equal, there probably is an advantage in having a local resident, because he has been there longer, has had more contact in the community, has a better feel for the city, and therefore is a little closer to that city.

Mr. Slaight: Yes, I think so.

Senator Hays: Do you suppose that is the reason why some of the stations have lost their audience, because of programming other than in their own city and this sort of thing?

Mr. Bellman: Most of the stations in this country are affiliated with one of two national networks, which means that by their very nature a large percentage of their programming will be originating, for all of Canada and for general Canadian interest. I personally think that the independent station like we are setting up has a greater opportunity to involve itself more totally in its own community because we are neither receiving from the network nor feeding to the network from other parts of Canada. I think there is a good place for both. I think there is a good place for the CTV network and for the CBC network, which fill different holes, and for the independent station like we will be in Vancouver, each filling a different purpose.

Mr. Slaight: Senator Hays, I can guarantee that the costs of running an independent—as is Global with no CBC or CTV affiliate, as is Mr. Bellman's station—are staggering. We do not have a network source to give us a great percentage of our Canadian programs. We do not have a national newscast at 11 at night going across the country and giving us Canadian content.

Madame Sauvé said that the United States realizes that the Canadian broadcasting industry is fragile and needs protection. It realizes that Bill C-58 is not anti-U.S. Madame Sauvé attacked the argument that there are not enough advertising spaces in the Vancouver and Toronto markets, saying it was shortsighted. She pointed out that no major station sold out completely the air time for advertisements. The point again is that the Americans—we are talking about the American government rather than just the few stations that are affected by this—we suggest, have a sympathy for the Canadian situation.

I would suggest to this committee that if you go back into the early 60s to the beginning of the CTV network—Mr. Hart from the CRTC would have a better memory of that than I would—almost without exception every one of those stations almost went bankrupt. They had lower Canadian content regulations, no cable industry, and they did not have nearly the severe fragmentation and competition we have today, but the CTV stations survived. They formed a marvellous network. I think we would all be much poorer if we did not have the CTV network in Canada. Now, in Ontario with Global, and in Winnipeg, Edmonton and Calgary, and then Vancouver, the independents are coming along and are expected to program as much Canadian content as the CTV stations, with no real network to fall back on for support. Mr. Bellman's costs, as we witnessed at Global, on a comparative basis are going to be very extreme.

Senator Hays: Mr. Bellman mentioned the new programming they were doing, and the eagerness of the Vancouver people who listened to this. I know Vancouver people, and I do not see much difference in people across Canada. I am wondering if the rest of Canada is being sort of cheated because of this stereotype thing that we get, you know—Harvey Kirk, Harvey Kirk... I get awfully fed up listening to a lot of junk on the television and I will shut the damned thing off. I think I am going to go out to Vancouver to listen. I have seen "All in the Family", for example, and some programs nine times, and sometimes four times in one night.

Senator Lang: Dr. Camu, I would direct this question to you. It is a rather basic one. Through the discussions today, and certainly in all the hearings before this, there runs the assumption that economic considerations militate against

Canadian content. In other words, if you are running a private broadcasting station in Canada, you are going to make more money if you don't have to have Canadian content, if you have to have Canadian content, you are going to be risking your profit margins. Is that so; and if so, why?

Dr. Camu: I am inclined to say, yes, when you compare the cost of production of half an hour or an hour of American program versus a Canadian program in Canada, for quality, because that is the most important part. If they say Canadian content is difficult, it is because to produce—and these gentlemen have figures at their disposal which I believe would back this up—a Canadian program of half an hour it costs roughly \$30,000. In the United States for an hour they are able to do it for \$200,000 to \$300,000. So, you would come out with a result that is very simple, one is of greater quality than the other and the end result in cold facts is that people are looking at the program which is better filmed, with more colour, better presentation and so forth. So, it is very difficult to produce Canadian programs. It is because Canadian eyes have been trained to compare all the time with the best of American television. This is one of the most difficult problems our producers and our broadcasters have.

So, with the new CRTC regulations there will be more Canadian programming. It makes a lot of sense. After all, we are here to serve the Canadian public and they should be served with Canadian shows, Canadian performers, Canadian artists based on Canadian texts and written documents, and so forth, and Canadian creative ideas. It makes sense. However, to do that, the same way as an American program does and to be of the same quality and with the same standards, it is difficult to go that far. This is where the money come into the picture.

Senator Alan A. Macnaughton (Acting Chairman) in the Chair.

Senator Lang: I can understand the question of quality and of scale, but what I am trying to get at is beyond that. Who says that maybe Canadian viewers do not prefer the American content to the Canadian content? Where is your gauge? What sort of objective tests are available for that sort of assumption?

Dr. Camu: There are several ways, and one of the ways, of course, is the ratings that are taken year round by a specialized bureau, the BBM—the Bureau of Broadcast Measurements, which is more or less like a co-op survey. There is also independent firm that does that—I believe it is A. C. Nielsen. Both are publishing ratings all the time. These ratings are not only giving you straight numbers or quantities, such as, number of viewers looking at the program between such-and-such an hour of the day and so forth, but also as part of this booklet each receives at home are questions and answers, where he has to state age, sex, habits, and so forth. Therefore, they have a pretty good idea of what I call the qualitative aspects of the viewers. Based on that you can sometimes detect what I call preferences. When you start looking at preferences, you end up with one of the greatest struggles that the CRTC has with regard to the broadcasting system, which is to try and convince Canadians that Canadian broadcasters can produce something good, something original that will respond to their needs. It is very difficult. I wish one or two of my members could perhaps expand and say a word or two about this. It is one of the difficulties of our times.

Television, in fact, started south of the border. The first messages you were able to get were there; and radio, 50 years or 35 years ago, was the same story. Radio, in the early 20s and 30s—

Senator Lang: Was from Chicago.

Dr. Camu: That is right. It was American at first. One of the ideas of creating the CBC in the late 30s was really to bring a Canadian voice somewhere on our soil. So, television is following the same way. I am confident that within another decade or so there will be more Canadian programming and probably better quality, and programs that will start to sell to other countries. They are able to sell some of their programs to other countries already. It is not only a one-way matter. Export of programs is now possible but on a very small scale. I am confident that with time it will come. That is why bills such as this one, and anything that you can find to help the cause overall, are good.

Senator McElman: I would like to make a few quick points, before we have the film, Mr. Chairman. Mr. Slaight, in answer to a question, suggested that there should be provision in this bill for Canadian advertisers, advertising on American stations, strictly for an American market. I only want to point out that provision is already in this bill.

Mr. Slaight: I was not aware of that. It is fair and reasonable it should be in.

Senator McElman: The second point is Senator Manning, I believe, put a question about the spillover, and what value might be put upon it. I would refer you to a recent statement referred to by Senator Davey, where Harry Boyle, chairman of the CRTC, stated that for the multinational corporations, with their advertising particularly on the border stations and networks, their beneficial spillover effect annually was between \$30 million and \$40 million. Now, that is spillover. That is aside from—

Mr. Slaight: That, sir, is money placed by American advertising agencies on American stations which you are referring to.

Senator McElman: Exactly. That is the spillover effect in Canada, which means that they do not have to advertise in Canada for a Canadian market, so I just wanted the record to show an answer to that query that was not answered, that the CRTC estimates that the amount annually is between \$30 million and \$40 million. That is in addition to the other \$20-odd millions we are talking about.

Mr. Slaight: In other words, if we had an ocean between us, Canada would have an additional \$30 million or \$40 million in revenue.

Senator McElman: Yes, in addition to the \$20 million odd we have been talking about, so we would be talking of \$50 million or \$60 million, instead of \$20 million. Thank you.

The Acting Chairman: Any other questions?

Senator Davey: I want to see this film.

The Acting Chairman: Yes. Who is going to project it?

Mr. Nichols: May I, by way of explanation, take a few minutes of your time? This is just an example of the commercials run on station WNY last Friday, which was very heavily networked. These particular commercials are all commercials aimed at the Ottawa market. Some time

ago, over a seven-day period ending March 3 of this year, we had a monitoring done of this station and we counted over 100 such ads in a one-week period. On this short film you are going to see you will see one commercial that is repeated three times during the course of the film. The only other point I would like to make on this is that this is a station that could not be seen in this marketplace, if it were not brought in by cable; so, having been brought in by cable, it has taken advantage of that and is selling advertising now in this market.

Senator Buckwold: What percentage of the local audience watches that station?

Mr. Nichols: They average about a 12 per cent share—a 12 to 14 per cent share—of the market.

The Acting Chairman: Honourable senators, I would like to remind you at this time that there is a meeting tomorrow morning at 9.30 on this bill.

Are you ready, Mr. Nichols?

Mr. Nichols: Yes.

A commercial was shown on a television monitor system.

Senator Buckwold: Who made that commercial? Was it made down there?

Mr. Nichols: It may have been down there. I do not know who made it.

Further commercials were shown.

Senator Buckwold: What is the rate for advertisements on American stations as compared to the Ottawa station?

Mr. Nichols: We do not know always what their rates are, but we do know that Mr. Ruttle, our general manager, some time ago had an experience with this particular station, who were selling prime time 30 second commercials for less than a local radio station was charging for its time.

Senator Buckwold: So they are really selling them very reasonably for a 14 per cent share of the market.

Mr. Nichols: That is correct. They certainly are.

The Acting Chairman: Honourable senators, are there any further questions?

Gentlemen, do you have any further comments?

Mr. Slaight: I would like to put one item into the record, if I may, very briefly. A United States investment firm issued a report in the spring of 1975, about one year ago, and it contained these figures: They took the three public companies that are involved. Capital Cities, who run WKBW in Buffalo, Taft Broadcasting who run WGR in Buffalo, and Wometco of Miami, who run KVOs in Bellingham. They could not use WBEN in Buffalo, because it is privately held. They wanted to know what would happen if 100 per cent of their Canadian revenue, or anticipated profits, from Canadian revenue, was to disappear because of the tax act. If 100 per cent of the Canadian revenue was lost in 1974 the net income lost to Capital City which is WKBW, Buffalo, was estimated to be \$1.5 million. To Taft, the net income loss to WGR, Buffalo, Taft Broadcasting, was \$1.1 million. Wometco, KVOs, had a loss estimated at \$2.1 million. We happen to think it is higher, but accepting that number that represents a total of \$4.7 million of net income coming from Canada.

In 1973, before Global came on the air and distorted the Canadian profit picture because of our phenomenal losses at that time, in a more normal period, to be fair, the after tax Canadian profit was estimated at \$16.7 million. That is from Statistics Canada, which will be very accurate. Those three Buffalo stations alone had more than 25 per cent of the profits, from their Canadian sales, of the entire Canadian private television industry. We do not think they need those dollars. The publicity on bill C-58 is beginning to hurt us. A number of advertisers and agencies originally assume, as did I, that the broadcast portion of the act would be retroactive to last January 1, because of the tie-in with the print situation, and that any contracts signed after January 1, in effect, would instantly become null and void.

Now, the advertisers and the agencies are saying, "We can rush to Buffalo or to KVOs, we can make a very good deal on a 12-month basis, and that contract cannot be attacked or affected." They are doing this now. They did it today with a major advertiser, one of the Buffalo stations. They are dumping compared to the Toronto rates that are now being offered.

We urge this committee not just to enact this legislation, but to name the proclamation date as soon as this can possibly be done. If it is as late as September, that means that you can be purchasing United States television until August of 1977 with no penalty. Global alone this year—this coming fiscal year—is budgeting to spend \$12 million in Canada alone. This has nothing to do with our purchase of U.S. or foreign programs. We made that kind of commitment, anticipating that Bill C-58 would have been effective last January 1.

We need high cost programming. We have made that commitment, and it is working, to give the advertiser the kind of inventory they claim is not there, though they are wrong, and the numbers prove them wrong.

We have pointed out most emphatically that the major use of Buffalo television is not in their so-called prime time, but from 4 to 8 p.m., where both Global and City, along with all the other stations in that market, have much stronger audiences than the Buffalo stations, sitting from 4 to 6. We at Global—and Dr. Camu has touched on it—have spent a fortune on Canadian programming particularly in our views and public affairs department. Now we are going back to the original intent of our licence, and are spending more with the independent Canadian community. I will just summarize and conclude by pointing out a comment from Madame Sauvé that is absolutely correct. "Historically, as Canadian stations improve their program ratings increase. Therefore C-58 would improve quality by making more revenues available."

On behalf of Global and, I suggest, on behalf of CAB, we urge you not just to pass this bill but to make the proclamation date as soon as it can humanly be done.

Senator McElman: Mr. Chairman, I think this is a very appropriate point to put on the record some information made public by the CRTC. I shall read from it:

Over week-long periods in the Spring of 1971, the Commission monitored the advertisements of some U.S. stations in Seattle, and one in Bellingham, Washington, as well as three in Buffalo, New York. The advertisements were categorized in two groups, one defined as "Non-Canadian" and the other as "Canadian Effective". The latter included commercial messages paid for by Canadian enterprises along with

those of multi-national companies having Canadian subsidiaries. Of the stations monitored, the lowest 'Canadian Effective' proportion of advertising was 64.1% the highest 86.8%. The overall average proportion of 'Canadian Effective' advertisements was in excess of 70%. The same situation exists at present and the Commission believes that this advertising should more properly be bought and broadcast within Canada.

\$40 million is the amount of commercial value which multinational corporations derive by taking spillover into account when deciding on advertising expenditures in Canada.

To put these figures in their proper perspective it should be realized that the profit of all television broadcasting in Canada, excluding the CBC, after income tax for a fiscal period ending August 31, 1974 was \$6.1 million.

I think this points up the importance of the legislation we are considering, Mr. Chairman.

The Acting Chairman: Dr. Camu?

Dr. Camu: Well, Mr. Chairman, we would like simply to thank you for having given us the opportunity to present not only our brief but also our views.

The Acting Chairman: Thank you gentlemen. We will adjourn until tomorrow morning at 9.30.

The committee adjourned.

Ottawa, Thursday, May 20, 1976

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-58, to amend the Income Tax Act, met this day at 9.30 a.m. to give consideration to the bill.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, appearing before the committee this morning is the Institute of Canadian Advertising. Mr. Milne, the Managing Director, will make the opening statement and introduce his panel.

Mr. Jack Milne, Managing Director, Institute of Canadian Advertising: Thank you, Mr. Chairman.

As the chairman indicated, I am Jack Milne, Managing Director of the Institute of Canadian Advertising, which I will explain a little more in a few moments. I apologize for the fact that our President, Mr. Anderson, could not be here. He is out of the country at the present time.

To give honourable senators some indication of my background, I am a professional engineer with training in economics, marketing and business management. On my immediate right is our legal counsel, Mr. Wayne McCracken; next to Mr. McCracken is Mr. John Tomlinson, Vice-President, F. H. Hayhurst Co. Ltd.; next to Mr. Tomlinson is Mr. David Harrison, Vice-President, MacLaren Advertising Limited. Both Mr. Tomlinson and Mr. Harrison have long experience in the examination of media, the placing of advertising in media, with their respective companies. Next to Mr. Harrison is Mr. Phillippe Fiset, Vice-President, J. Walter Thompson Co. Ltd. Mr. Fiset's expertise lies in the use of broadcast media. Finally, sitting in the background, almost hidden, is Mr. H. M. (Bud) Turner, President, MacLaren Advertising Limited, one of Canada's largest and best known advertising agencies.

The three agencies represented are three of the largest advertising agencies that buy time on Canadian television. The function of an advertising agency is to recommend, to create, to produce, and to place advertising on behalf of advertisers. The advertisers, incidentally, are represented by the Association of Canadian Advertisers, who I understand will be appearing before you some time in the near future.

The agencies we represent place advertising for advertisers who may be manufacturers, service industries, large retailers, institutions, or even governmental departments. ICA member agencies are responsible for placing about 85 per cent of all national advertising, as opposed to retail and classified advertising, and the largest percentage of national advertising is television advertising.

Honourable senators will have received copies of our intervention, which I am sure honourable senators have read. With your permission, Mr. Chairman, I should like to briefly highlight our recommendations and concerns by way of emphasis. First, let me highlight the two recommendations which appear at page 1 of our brief.

Our first recommendation is that any legislation which could alter current Canadian broadcast activity on foreign-owned stations should have attached to it conditions which permit such change-over to be orderly and evolutionary so that the Canadian broadcast and business communities can adjust effectively and efficiently; secondly, the implementation of Bill C-58 should be conditional upon agreement by the Canadian Radio and Television Commission, and in keeping with that body is forward plans and policies for broadcasting in Canada.

We believe that these recommendations reflect the spirit of the comments of the Honourable J. Hugh Faulkner when he announced his intention to introduce this bill on January 23, 1975. Mr. Faulkner stated that the effects of the bill would be as follows:

- redirect funds to Canadian broadcasters;
- make Canadian broadcasting outlets economically more viable;
- ensure a broader selection of Canadian programs to viewers;
- make possible better programs;
- improve the prospects of new or proposed Canadian stations; and
- assist in improving the overall quality of the Canadian broadcasting system.

We do not question the value of those objectives, but we do question whether Bill C-58 will accomplish them. Our concerns are:

1. That Canadian viewers watch programs that interest them regardless of their point of origin. Reduction in advertising of Canadian products on U.S. border television stations will not alter the viewing habits of the viewers.
2. Television advertising funds not spent on a U.S. border station will not necessarily be redirected to Canadian television.
3. Many Canadian-owned companies which advertise on television in the major markets affected by this bill may suffer hardship.

The major purchasers of time on Buffalo and other U.S. border stations are the short-term and/or seasonal advertisers who cannot purchase time efficiently on the domi-

nant Canadian television station, the reason being that the dominant Canadian television stations cater predominantly to 52-week advertisers. As an example, approximately 80 per cent of CFTO-TV's, (a Toronto station) and CHAN-TV's (a Vancouver station) prime time inventory is sold to 52-week advertisers. CHCH-TV's (in Hamilton) prime time inventory is sold to 52-week advertisers, representing approximately 60 per cent. The question, then, is: If the availability of U.S. stations to short-term advertisers is removed by passage of Bill C-58, where will these advertisers go?

4. Increases in demand for television time on larger Canadian border television stations will probably result in an increase in their rates, with serious consequences for all smaller television stations and their employees.

5. Unemployment of people involved in the television industry may increase.

6. Program costs for Canadian broadcasters will probably increase. This, in turn, will result in higher advertising costs.

The issues raised by Bill C-58 are all complex. Its ramifications are widespread, even possibly international. The bill some questions to which we do not have answers, raises such as those listed on page 5 of our intervention. First, we understand that there may soon be alterations in the regulations governing cable television. How will those changes meld with the proposed legislation and what will be the combined effect on the business community?

Secondly, we understand that the government has considered and rejected some alternatives to achieve the objectives of Bill C-58. In light of the concerns, possibly the government might reconsider approaches other than income tax legislation to help Canadian programming and Canadian broadcasters, particularly the smaller English and French stations. We think it important that such questions be answered.

Thirdly, and perhaps most important of all, we understand that the Canadian and U.S. governmental authorities are even now discussing questions affecting broadcasting as between our two countries. How will any agreement which may be arrived at as a result of those discussions meld with the proposed legislation and what will be the combined effect on the business community?

We think it is important that such questions be answered with reasonable certainty before passage of Bill C-58.

In our view, the Canadian Radio and Television Commission has proved to be an excellent coordinator of supply and demand of broadcast time, while also implementing policies in the areas of concern outlined by Mr. Faulkner. The long-term plans of CRTC, which include such areas as simulcast broadcasting, cable licensing, cable deletion of commercials from U.S. stations, and others, could in fact accomplish the objectives of the bill, using an appropriate technique and in a proper time frame. This approach would also have the benefit of avoiding the creation of income tax provisions, which may well be anomalous.

One point I neglected to mention in introducing my panel, Mr. Chairman, is that Mr. Tomlinson is the Immediate Past President of the Bureau of Broadcast Measurement, the industry's measurement service, and Mr. David Harrison is the new incoming vice-chairman of the same organization. So both of these gentlemen are knowledgeable about the measurement of broadcast stations.

Finally, we are more than willing to volunteer our knowledge and experience to you, or anyone else, in order to help resolve issues which face us.

That concludes my opening statement, Mr. Chairman, and we are now ready to answer any questions honourable senators might have.

The Chairman: Senator Walker?

Senator Walker: I should like to direct my first question to Mr. Milne, Mr. Chairman.

Did you not bring all of these points to the attention of the government before this bill was passed by the House of Commons?

Mr. Milne: You have, I think, in front of you, copies of letters that I wrote earlier, in late 1974, to the Honourable Hugh Faulkner before the bill was introduced. Copies of those same letters were sent, in addition, to Mr. Guilbault's committee. We did not appear before the House of Commons committee.

Senator Davey: Mr. Chairman —

Senator Walker: Just a moment. I am in the middle of my questions.

Senator Davey: Mr. Chairman, is a supplementary question in order?

The Chairman: Senator Walker will finish his questions and you will be next.

Senator Walker: Did you ever interview Mr. Faulkner as a result of your representations?

Mr. Milne: No, we did not.

Senator Walker: Did you ever try to?

Mr. Milne: No, sir, we did not.

Senator Walker: You never made any effort?

Mr. Milne: We attempted to appear before the Commons committee, but they did not have room for us.

Senator Walker: They did not have room for you?

Mr. Milne: No.

Senator Walker: So you have never had an opportunity to present your views publicly until this morning?

Mr. Milne: That is right.

Senator Walker: And you were refused by the House of Commons committee the privilege of appearing before them?

Mr. Milne: I would think the word "refused" is too strong. They simply said there were too many requests to appear, and we did not appear.

Senator Walker: So this is the first time you have ever had the opportunity of appearing before a parliamentary body to express your views?

Mr. Milne: On this particular issue, yes.

Senator Walker: So far as you are concerned, therefore, this bill was drawn without your consent, approval or even advice?

Mr. Milne: Yes.

Senator Walker: Go ahead, Senator Davey.

The Chairman: Senator Davey?

Senator Davey: I will ask questions later, thank you.

Senator Laird: I get the impression somehow or other from your brief that you are accepting in the long run as inevitable the change of mind that is contemplated by Bill C-58, and that you are in effect wanting it phased in over a period of time. Am I judging your attitude correctly?

Mr. Milne: Absolutely, sir. I think we would agree with you.

Senator Macnaughton: On page 5 of your brief, at the bottom you say:

(2) We understand that Canadian and U.S. governmental authorities at this very time are discussing questions.

Is that an argument? How serious do you think those discussions are? In other words, we have had evidence before this committee that the discussions have opened, in the sense that I call you on the telephone and say, "I would like to talk to you about something; we will meet sometime in the future." You advance this as an argument. How serious is it?

Mr. Milne: It is hearsay as far as we are concerned, but if it is true we think it is serious.

Senator Macnaughton: There are a lot of ifs there, aren't there?

Mr. Milne: Yes.

Senator Macnaughton: That is my point.

The Chairman: Do you want all the ifs?

Mr. Milne: Well, it is still hearsay so far as we are concerned, but if it is true—and there is only one if—it is serious.

Senator Macnaughton: We tried to make the point in committee that the government could and should take up this question with the United States authorities and get around the table and settle it. If there has to be horsetrading, well, there has to be. We did not seem to get too far with that argument.

Mr. Milne: We agree with you, sir.

Senator Flynn: If the bill is passed, I do not know how far those negotiations would go, because in Canada we would be negotiating from a position of strength; we would have a hammer in our hands, saying, "If you don't agree we are going to proclaim this bill." Once the bill is passed I do not see what point negotiations could serve.

Mr. Milne: Don't forget we represent the advertising agencies. We are not privy to what External Affairs is doing. As I say, it is just hearsay.

Senator Walker: Particularly if they are not doing anything.

Senator Cook: You are not the only one who is not privy to it.

Senator Desruisseaux: In Exhibit II you list two Toronto stations, one Hamilton station and one Vancouver station. The current status is "100% Sold Out" to July 1, 1976; from September and December, 1976 the lowest sold out figure is

90 per cent; even from January and June, 1977, the lowest figure is 85 per cent sold out. I have noted that there are other stations. Is there any other reason for not listing the estimates of the other Toronto or Vancouver stations?

Mr. Milne: Perhaps I could ask Mr. Tomlinson to answer that question. He is an expert in that area.

Mr. John Tomlinson, Vice-President, F. H. Hayhurst Co., Ltd.: This particular exhibit was developed to show the strongest stations and their position in the marketplace in terms of available inventory at various points in time. These are stations that allow an advertiser to best reach its marketplace. If these stations are sold out while some smaller stations or newer stations do have time available, that time, while it may be valuable time, does not allow an advertiser properly to cover the marketplace.

Senator Desruisseaux: Do you have the figures for those other stations?

Mr. Tomlinson: In terms of the "sold out" situation, not that I could quote.

Senator Desruisseaux: Or the percentage of "sold out"?

Mr. Tomlinson: I would say the other stations are lower, probably at the 50 per cent level.

Senator Desruisseaux: But you do not have those figures?

Mr. Tomlinson: No. The reason we do not have those figures is that these particular stations and networks are nearly always in the position that we show you in Exhibit II. The other stations do have time available, and it will depend on the time period and the various marketing activities in that time period. We discover their position as to the "sold out" factor only when we ask them for availabilities, which are times available for us to buy.

Senator Desruisseaux: These figures are obtained from the media directors; is that correct? They may not respond to historical facts, except to a degree?

Mr. Tomlinson: Basically they are historical. This week I called the four stations listed there and asked them to verify the historical situation. There would be one change. CHAN-TV in Vancouver admits that at this point in time it is sold out to June 1; it is only 85 per cent sold out from June through July.

Senator Desruisseaux: In these cases?

Mr. Tomlinson: Yes.

Senator Desruisseaux: Can the information be obtained from the media directors of the other stations?

Mr. Tomlinson: It could be. If I called a station and asked "What is your sold out position?", generally I would not get an answer, so I cannot guarantee that these figures are accurate.

Senator Desruisseaux: Even these?

Mr. Tomlinson: Even these, other than the top line of that exhibit, to July 1. Generally what happens is that we will call a station and say, "We would like to book a campaign for a client. Please send us all time available." What we get back is either near to a blank sheet, or time that is so poor in audience delivery that we do not consider it valuable time; therefore we consider them to be sold out of useful inventory.

Senator Desruisseaux: If prime viewing time has been booked 100 per cent, have you any figures as to the refusals you receive or other bookings that you could make?

Mr. Tomlinson: I am sorry, I am not sure that I understand that question.

Senator Desruisseaux: I see 100 per cent of prime time being sold out on these four stations. Surely they have a system on the stations for the booking of prime time by advertisers. Of course, they must have met with refusals, because of the totals. Have you any information as to what it is?

Mr. Tomlinson: For example, the CTV and CBC networks have what they call a declaration date for advertisers to state what their demands are for the next broadcast year. This declaration date, as it happens, is this coming Friday. We have indications from those two networks that they will be turning down approximately \$5 million worth of orders because they cannot accommodate them. That \$5 million, roughly, of orders will be in short term, shorter campaigns of seasonal advertisers, who will be turned down because the two major networks book virtually all of their prime time to 52-week advertisers. Therefore, we know that there is roughly \$5 million worth of advertising time that will be turned down in the next two weeks. That is telling us that CTV and CBC will be virtually sold out from September 1976 through to May-June of 1977.

Senator Desruisseaux: Where will that \$5 million worth of advertising go?

Mr. Tomlinson: That \$5 million will then be replaced, if possible, on what we call the selective stations, which are the stations other than these we have shown in this exhibit. It would be to Channel 11, Global, City, the Buffalo stations, CHAN/CHEK and KVOS in the Vancouver market, and to some fringe stations around those markets.

Our main point here is that the short term advertisers, the seasonal advertisers, will have to deal with the lesser quality of advertising time in order to get their campaigns on the air. If this bill is enacted, a large large part of the supply available to those advertisers will be gone.

Senator Laird: I suppose the same thing would apply, for example, to the Buffalo stations, where they would primarily prefer long term advertisers; would they not?

Mr. Tomlinson: I think they would. I think all broadcasters would prefer long term advertisers.

Senator Laird: That is especially true of prime time?

Mr. Tomlinson: Yes.

Senator Laird: We have had evidence already with regard to Canadian advertising broadcast by Buffalo stations, that quite often it is difficult, to put it mildly, to get prime time, but there is time available at other time periods.

Mr. Tomlinson: Although it is easier for these short term seasonal advertisers to buy prime time on the border stations than it is on our own stations.

Senator Laird: Is that so?

Mr. Tomlinson: I refer to our own major stations.

Senator Laird: Why is that?

Mr. Tomlinson: Because they are not in the same "sold out" position as CFTO and CBLT and the two networks.

Senator Laird: That is very interesting.

Senator Hays: The \$5 million of short term advertising—how important is this advertising and what essentially would be involved? I am assuming that you are saying the network is sold out.

Mr. Tomlinson: Virtually so.

Senator Hays: You are spot advertising.

Mr. Tomlinson: Yes.

Senator Hays: What kind of products would be involved in this? This situation probably exists all the time.

Mr. Tomlinson: Yes, it does. They would be products of various natures. A good example would be toy advertisers, or appliance advertisers, whose big push would be pre-Christmas because that is when they sell the bulk of their products. For seasonal advertisers such as some cleaning products the big season is in the spring cleaning period of the year, and some automobile advertisers.

Senator Cook: How about "Bug-Off"?

Mr. Tomlinson: Yes, that is a perfect example of a seasonal advertiser that only advertises at one given time.

Senator Hays: If some day the government said that we just can no longer have these CTV stations, that a certain number of them will have to be owned in the communities they serve, would it cost more to advertise a certain product? For instance, that Vancouver station is not a network station and there are all sorts of smaller stations that are not network stations.

Mr. Tomlinson: Most of them are network stations, other than the new licences in the past year; most of them are affiliated with the network. The network has approximately 40 to 50 per cent of the prime time. So, it is sold out very quickly, and in advance. These remaining dollars go back to the same type of station in an endeavour to buy the selective time, the non-network prime time. It too, with the major stations in the major markets, is sold on a 52 week basis.

Mr. David Harrison, Vice-President, MacLaren Advertising Limited: There is the additional Competition of local advertising.

Senator Hays: Are people who have regional products suffering because of this advertising being tied up through networks? For instance, is a manufacturer of rock-pickers—a machine that picks rocks on land, the use of which is seasonal—in Regina, not having the freedom to advertise in his community, held back because of this sort of thing?

Mr. Tomlinson: That is a very difficult question to answer. I would probably say no to your specific example because Regina is not a major market, a top priority market, and would probably have time available for that specific regional seasonal advertiser. If that regional seasonal example you gave was in the Toronto, Vancouver or Montreal area, he would be severely handicapped.

Senator Hays: What disturbs me is that we find in Alberta, Saskatchewan or Manitoba, and perhaps some other areas, that we are subjected to Colgate, and if we want to make a toothpaste we are less likely to be able to

advertise it because of the prime time being sold out to a network because they have a captive audience, and they can import those sorts of programs. Therefore, we have a buildup of a very protected area. Would you agree or disagree with that?

Mr. Tomlinson: The only example that I could call to mind, sir instead of toothpaste would be coffee. The Nabob Coffee people, which is basically a western company, have not found it terribly difficult to place their advertising, as comparable to Instant Maxwell House Coffee. That is probably because they are a strong western company, and have established a franchise in the west with their broadcasters.

Senator Hays: Would it cost more from these particular, due to the fact they are denied prime time. These other companies have captive audiences because they can buy these American Programs which we have been told about in the Committee?

Mr. Harrison: Mr. Chairman, may I answer that question? The situation generally, in television, has been that there is less inventory than demand. Clearly one of our great concerns is that if we were to remove, in southern Ontario and the lower mainland of B.C., access to stations which provide an overflow of inventory, we would be in a great deal of difficulty. We would be faced with greatly increased costs. We are very concerned that this will lead to a removal, perhaps, of advertisers from television. This will affect not the Toronto stations, not the Vancouver station, or the Montreal stations, but will, in fact, affect the smaller western stations, the Maritime stations, and the Northern Ontario stations, because if you cannot buy television time in those major markets, then it is unlikely that you will make a television commercial.

Senator Hays: So what you are saying is that if this bill goes through, they will be hurt?

Mr. Harrison: Yes, we believe that is true.

Mr. Tomlinson: Point (4) on page 3 of our submission points out that:

Increases in demand for TV time on larger Canadian border TV stations will probably result —

Will definitely result.

— in an increase in their rates, with serious consequences for smaller . . . stations —

I should point out that to the broadcaster the cutting back of the list of markets, cities and stations that we the advertisers use, or which the agencies use on behalf of the advertisers, is a constant worry and fear to those smaller broadcasters. Over the past few years, due to inflation, stations in markets such as the Okanagan, Prince Albert, Matane, Yorkton and Rimouski—have been deleted from the advertiser's lists of markets, because his priority is where the people are.

Senator Davey: Than why does the CAB support the legislation?

Mr. Tomlinson: I cannot speak on behalf of the CAB.

I would like to add one more point. It is our firm belief, as the people who recommend to the advertisers—and our job is to do the best we can to sell their products—that if this bill goes through, the price in the major markets will be driven up yet further, and markets such as Saskatoon, Kingston, Rouyn, St. John's, and Halifax may well be the

next group to be deleted from the major advertisers' lists. We feel that they will, as a result, suffer.

The bigger stations today are viable economic outfits. This bill may well have the effect of making them more profitable to the detriment of the smaller stations in the non-border markets.

Senator Hays: Let us take Kelowna, B.C., for instance. How does it affect the people within the community? It is bound also to have a reflection on their material resources.

Mr. Harrison: If it met with a loss of revenue to the television stations, I think in a direct way the loss of revenue would mean less money to pay employees of the television station, which would have an effect on the community. There would be less opportunity perhaps to buy services within the community. But it is a rather difficult thing for us to give dimensions to.

Senator Hays: But you feel it would be a detriment not only to the smaller station, but also to the people it serves and the regional products it advertises?

Mr. Harrison: It would tend to deprive them of information which they might normally find useful in their everyday lives.

Senator Macnaughton: Page 4 of your brief is very interesting. You say that you approve of the objectives of Mr. Faulkner. You list six of them, and say:

ICA does not question the value of the above objectives.

You then go on to question the legislation and you uphold the CRTC. I do not say that you are right or wrong, but I wonder if you could expand on that. On the one hand you approve, and on the other hand you say "No, it is not the right way." There is a slight conflict there in your argument.

Mr. Milne: Senator, would you mind pointing out what you are referring to?

Senator Macnaughton: Page 2.

Mr. Milne: I thought you said page 4.

Senator Macnaughton: You attribute six objectives to Mr. Faulkner. The second paragraph says:

ICA does not question the value of the above objectives. We do question, however, whether the Bill will accomplish them. Accordingly, we feel strongly that the CRTC is fully capable

And so on. Why?

Mr. Harrison: Mr. Chairman, I will try to answer this. We may agree with the value of the objectives, but we wonder if the tool that is being used to meet those objectives is the right one, in terms of amendments to tax legislation.

Senator Macnaughton: Tell us why.

Mr. Harrison: Perhaps counsel could better answer that.

Senator Davey: Mr. Harrison, you say you may agree with the objectives. Do you or do you not agree with the objectives?

Mr. Milne: Yes, we do.

Mr. Harrison: Yes, we do.

Mr. Wayne McCracken, Legal Counsel, Institute of Canadian Advertising: We feel that tax law, which has been relatively inflexible historically, in my experience as a lawyer, is perhaps not the proper tool to use to achieve cultural objectives with which we agree.

Senator Davey: If you agree with the objectives, what had the ICA done to help achieve those objectives prior to the bill's being introduced? What steps had you taken to achieve the objectives of the bill, either as a group or as an individual agency?

Mr. H. M. Turner, Jr., President, MacLaren Advertising Limited: We have described to the committee our basic function, which is our obligation to our advertising clients to make the most effective use of whatever medium we can to advertise their products. That is the fundamental responsibility which we feel we have. That is our primary concern. The second concern that comes out of that is that is the event of any bill or action from the government which reduces our inventory to accomplish our fundamental business principle, we must, in fact, suggest some intervention. It is very difficult to answer action in areas other than our business responsibility to our clients.

Senator Davey: You come before this committee and say you support the objectives of the bill. All I am asking is what the indications were of that support prior to the bill's introduction. Is it possible to say that had the bill not been introduced you would not have supported those objectives?

Mr. Turner: May I speak not for the ICA but for myself as president of MacLaren Advertising Limited? It is obvious that there is some division, because of the nature of the composition of any association. We are the largest Canadian-Owned advertising agency, which poses two interesting problems for us. In the broadcast business we have, as you know, had a great deal to do with Hockey Night in Canada. The implementation of this bill, as a matter of self interest, is very good for the sponsors of Hockey Night in Canada. We have always maintained that show on the theory of it's being Canadian content. In fact, it becomes a very good television buy. I think that indicates, so far as my own company is concerned, where we stand.

My personal reaction to it is—here I will make a corporate comment—that we are also the only Canadian international advertising agent in the marketplace. My concern as president of the company falls in line with the ICA's feeling on limitation, because I have some fear, in my opportunity to move in other markets, of the same sort of restrictions. If I can be pretentious enough to consider that I am an internationalist in business, I am concerned when we in Canada enact any sort of legislation which limits our opportunities in other markets as an international agency.

My final comment is personal. I am a Canadian and I think that individually, as Canadians and as members of the ICA—because most of us are Canadians—cannot help but agree with the furthering of Canadian social, economic or cultural gains. However, I must get back to the main point I have tried to make, that the business of this particular institute is in fact, business.

Senator Davey: I put the same question to Mr. Milne. The ICA really supports the objectives of the bill after the bill has been introduced. Prior to its introduction, the ICA would not concern itself with this kind or problem. Is that what Mr. Turner is saying?

Mr. Milne: No, I do not think so. Let us examine Mr. Faulkner's six objectives, and, if I may be permitted to do so, let me speak to each one. The first objective is to redirect funds to Canadian broadcasters. The member agencies of ICA have encouraged their clients to use Canadian broadcast stations to the utmost. They use border stations simply when they cannot get the audiences required on Canadian broadcast stations.

The second objective is to make Canadian broadcasting outlets economically more viable. Really, that flows from the first objective. If the Canadian stations receive more revenue from advertisers, they become economically more viable, and we have certainly encouraged that over the years.

The third objective is to ensure a broader selection of Canadian programs to viewers. The advertising agency does not involve itself in programming. It buys advertising time adjacent to programs that attract audiences. In the early years of television—and MacLaren Advertising is a prime example of this—advertising agencies helped in the development of Canadian programming, of which Hockey Night in Canada is a good example.

The fourth objective is to make possible better programming. Again, in a sense, that flows from the third objective. The advertising agency, on behalf of its client, is interested in audiences. If a particular program attracts audiences, then that is the one they will probably recommend the client to place the advertising adjacent to. It is hoped that in the process of encouraging larger audiences, better programming is encouraged.

I suppose it is an apple and orange type of thing, but the fact remains that programming is not a function of the advertising agency. All the advertising agency can do is encourage the station to involve itself in better and better programming.

The fifth objective is to improve the prospects of new or proposed Canadian stations. Again, that is not a function of the advertising agency. As new stations come along—and the Global Network is a good example—our members examine the audiences such stations will provide, and if they tie in with an advertiser's needs, they will recommend such stations. Again, our agencies are glad to do anything they can to encourage more Canadian stations and to encourage more development of Canadian networks.

The sixth and final objective is to assist in improving the overall quality of the Canadian broadcasting system. We have worked very closely with the CRTC in this respect. We have a committee known as the Joint Broadcast Committee of the Association of Canadian Advertisers and the Institute of Canadian Advertising. We sit with the CRTC quite frequently and have been very close to the chairman of the CRTC and its staff. We meet with them on a regular basis, and do everything in our power to help improve the overall quality of the Canadian broadcasting system.

One of the things we do is involve ourselves in union negotiations with ACTRA and the Union des Artistes, the two unions representing the people who appear in television commercials. One of the things we have encouraged over the years is the use of Canadian talent. Our agreement with those two unions includes a recommendation that the agencies and the advertisers do all in their power to encourage the use of Canadian talent.

Perhaps Mr. Tomlinson has something to add.

Mr. Tomlinson: I would only add that my agency, Hayhurst Advertising, on behalf of a number of its clients, has developed a number of excellent programs. I am particularly addressing myself to Mr. Faulkner's objectives 3, 4 and 6. I think honourable senators will recall some of the programs. We recommended to Royal Trust that it sponsor The National Dream. The Noranda group of companies sponsors a series of excellent programs at roughly three times the normal cost. These programs are called the Window on the World series, and appear on the CTV network. We have developed for Ontario a Canadian program which happens to be the number one program in Ontario. It appears on the Global Network and has increased that network's reach and power considerably. We developed a program called the National Wrigley's Hockey Tournament for midget hockey players. Those are four areas of real quality Canadian programming developed by us and our clients on behalf of the broadcast industry.

In respect of the first objective, I can only reiterate what has already been said. We redirect funds to Canadian broadcasters when they are viable and can offer us good value for our dollar. We are businessmen making recommendations for our clients, and can only act on that basis. My agency—and I am sure this applies to most major agencies—backed the Global Network extensively in its first year. Unfortunately, it proved to be a bad business gamble in that in its first year Global did not produce the audiences. As events turned out, our advice to our clients proved to be a costly mistake for them.

Senator Laird: Are you not concerned in the broader aspect, having in mind all this discussion, with the effect of this method of dealing with the United States by confrontation? In other words, regardless of the merits of this bill, it constitutes another irritant added to a lot of things that have happened in Canadian legislation. This perhaps might be of more concern to Mr. Turner, since he is involved with an international agency. Does that not give you some concern?

Mr. Turner: It does, yes.

Senator Laird: It concerns some of us, too.

Senator Davey: I wonder if the witness could state why it concerns him.

Senator Laird: Senator Davey is wondering why it concerns you, Mr. Turner.

Senator Davey: The gentleman from the Hayhurst agency can answer, if he wishes, or either one of them.

Mr. Turner: Perhaps I can answer the question since it was directed to me.

We place a great deal of advertising in other countries for Canadian concerns. The effect of both business practices and legislation, which interrelate when you are doing business, is something I can only speculate on. I think we probably could, with some professional authority, suggest that we would be somewhat hampered in placing advertising on U.S. television stations—not just on border stations, but stations throughout the United States—if in fact that country felt that we were legislating against its interests.

Senator Davey: Who are the clients for whom you place advertising in the United States?

Mr. Turner: The Canadian Government Office of Tourism is our largest client.

Senator Davey: Canadian companies.

Mr. Turner: Yes.

Senator Davey: You would recommend a policy, I suppose, of Canadian advertisers advertising abroad using Canadian advertising agencies.

Mr. Turner: Yes, of course.

Mr. Harrison: I wonder if I might add a supplementary comment to your question, Senator Laird?

Senator Laird: Certainly.

Mr. Harrison: I had a conversation last week with the head of a Canadian production company which manufactures programs, and has for the last year been manufacturing programs for American clients for placement on American television stations. He was in New York last week to renegotiate the next series of these programs, and was told by his client that they would not be able to use a Canadian production company now for fear that retaliatory action was going to be taken by the American stations, resulting in the inability of that client to place the programs.

Senator Laird: That is precisely what worries me, and I said so in the Senate. You all subscribe to the objectives of the bill; I subscribe to them myself. It is only a question of method and timing. Unfortunately, we have irritated the Americans—and I am not guessing about this; I know from contracts—with such things as the Foreign Investment Review Agency, the takeover of the potash industry by the province of Saskatchewan, the increased tax on the purchase of real property in Ontario by non-residents, and so forth. All these things are adding up. It does seem to me, with great respect—and I think Mr. Milne agreed with this, as I understood him—that the solution to the problem of broadcasting is by way of the process of negotiation to make sure that there will not be the type of reaction that we are worried about.

Mr. Harrison: Yes.

Senator Davey: I wonder if I might ask Mr. Harrison to identify the production company he spoke of, Mr. Chairman.

Mr. Harrison: Yes, I can identify it. Its name is Cenera Productions.

I wonder if we might go back to the question of device. I have not discussed this with the other members of the committee, so I think I should say it is my opinion. It is certainly my opinion that what we are trying to protect here through a federal measure is, in fact, a regional problem. One of the complications when you use an income tax device to solve the problem is, I think, that you are rather stuck with it across the whole country. While we can see a case for protecting broadcasting undertaking in, say, the Maritimes or the Prairies, we do not see the need—in fact we see a danger—to introduce this kind of legislation to prohibit the use of stations in Southern Ontario, New York State, Washington or British Columbia. That is why we have a great deal of trouble at this time. We are wondering if it is not possible to find another way of doing it.

Mr. Tomlinson: I think I could add to that. Simply stated, we believe that protection will not make broadcasting stations viable. They themselves will make themselves viable. We believe that through international agreements and the CRTC, as we have stated in the brief, is probably the way to do it. If it is done, it should probably be phased in rather than with an abrupt cut.

Senator Laird: I would agree with that.

Senator Cook: I have two questions arising out of these two answers and a previous one. It is a local question, but very important to me. You stated that stations in St. John's Newfoundland, might be deleted.

Mr. Tomlinson: From the market list of various advertisers, yes.

Senator Cook: As I understand it, there are only two stations there. One is a CTV affiliate and the other is a CBC station.

Mr. Tomlinson: Yes, sir.

Senator Cook: They will get their local advertisers. Do they not, as part of the two broadcast systems, get their share of the national advertising anyway?

Mr. Tomlinson: Yes, sir, they do. Perhaps I could repeat something I said earlier—roughly 40 to 50 per cent of the prime time of any given station is network, so both of those stations in St. John's will receive national advertising through the network purchases; the remainder of their inventory, both in prime time, late night and day time, is sold on a selective basis to national advertisers and to local retailers. It is my understanding, having had discussions with a number of these smaller market stations, that if they were deleted from the national advertisers' selective list they would be in serious trouble financially.

Senator Davey: I would like to see that documented.

Senator Cook: So would I.

Mr. Harrison: Specifically, in the case of Newfoundland there would be an additional problem. I understand now that cable companies are being licensed to operate in Newfoundland, and there will be the additional complication of fragmentation of audiences, which would tend to have the effect of reducing the efficiency.

Senator Cook: But that is nothing to do with this bill.

Mr. Harrison: No, it is not, but it is an additional complication in terms of making recommendations to buy efficient television time.

Senator Cook: Would the amount of uncommitted or loose time that they might lose by being dropped off the selective list be a significant percentage of their total income budget?

Mr. Tomlinson: I could not give you a real answer on that. A broadcaster himself would have to answer that question as to the percentage. As to the significance, I can only say that they have answered to me that if they lost that national revenue they would find themselves very close to the break-even point or the red line.

Senator Cook: When you say "they," would you care to say who "they" are?

Mr. Tomlinson: There is only one station that I could directly speak on behalf of, and that is Sault St. Marie,

with whom I did discuss this question. They are what we will call a minor market. Other representatives of the stations and stations sales people have, over the year while this issue and many of the other issues in the CRTC developments have been at question, are seriously concerned in that the minor markets in Canada are in a rather fragile economic situation as it is, in that making money and making profit for their shareholders is a very fragile thing. Any loss of revenue can put them in a serious position.

Senator Buckwold: I find it very difficult to relate your evidence to what we heard yesterday from the Canadian Association of Broadcasters. You have completely belittled anything they had to say so far as their financial future is concerned. Yesterday we had a group representing an association that, from what I gather, covers almost 95 per cent of the broadcasters, including television. These people are not stupid, as you would seem to make them appear to be. They know what their future market is. They are not going to blithely endorse the stand taken by their association and face financial disaster, as you would lead us to believe. I am talking now of the majority of their members, who come from smaller places, what you call the minor markets. You would lead us to believe—and I think it is a very real contradiction—that this is the case.

You talk about prime time. Yesterday I asked several questions of the witnesses about prime time, and their evidence was in complete contradiction to what has now been given us; there is prime time available. It is on the record. I am not suggesting that your evidence is wrong and their is right, I am just saying there are very conflicting viewpoints. It would seem to me that, in a field where these things are fairly obvious, we should not be faced with that kind of contradiction.

We have heard about programming. You indicate that people watch the American stations because they give better programming. Yesterday we were told that in the Toronto market, for example, stations are very rapidly increasing their viewing audience, the percentage of the people who watch their programs—that they call ratings. Global was very happy; CITY is gaining steadily. Again this is in contradiction to the kind of evidence we have heard from you today. I would like you to elaborate a little bit more on this.

I am sorry if I have made a speech, but I must say I am confused. This is very fundamental.

Mr. Harrison: We are encouraged to hear that the stations believe they are so healthy. Therein lies a great part of our concern, because if they are so healthy they have even less inventory than we have been led to believe, which means that our job will be even more difficult in trying to find time in the major configurations of Southern Ontario and British Columbia in order for smaller and shorter term advertisers to advertise. Again, our concern is not for the stations in Southern Ontario or the lower British Columbia mainland, but for the stations in the Prairies, Northern Ontario and the Maritimes, because if some of the advertisers who normally would advertise across the country are unable to buy time on Canadian broadcasting undertakings, they will not buy time in any other part of the country.

Senator Buckwold: You are going back again to concern for the smaller market areas.

Mr. Harrison: Yes, sir.

Senator Buckwold: I come from Saskatoon, where we have very bright guys running the station. They are not going to support the CAB unless it is in their interests to do so. Perhaps you are smarter than they are, but they are not anticipating any serious loss of market. They are anticipating an increase in their revenue.

Mr. Harrison: I do not think we can presume to speak for the CAB, nor have we about this matter. I guess we are at a disadvantage because we are not privy to the evidence you received yesterday.

Mr. Milne: We did not attend yesterday and we do not know what they said. We did not hear the discussions. We have not seen their brief, so, we are not familiar with the things about which you are speaking.

I would point out that in every trade association—and the CAB is no different—there are differences of opinion among the membership. This is their way of life. However, we cannot speak for them when we do not know what they are saying.

Senator Buckwold: What percentage of the CAB membership would be minor market stations? Would it not be by far the largest number? I am not talking about volume of advertising; I am talking about number of stations.

Mr. Harrison: I would think there is about 80 to 85 stations in the country, and approximately 50 of them would be small markets.

Senator Buckwold: We keep getting this belittling of the membership of the CAB.

Senator Davey: They said 85 per cent yesterday.

Mr. Harrison: I do not wish to sound facetious but if such help exists for the Canadian broadcasting stations, why would they require a bill to further aid them. Why would they speak in support of it?

Senator Buckwold: I think that is obvious from their evidence yesterday. I do not know whether the chicken comes first, or the egg; whether more revenue helps produce better programming, or better programming helps produce more revenue. The reason they support it is there would be more advertising dollars which would make it possible for them to produce better programs, and have a larger audience participation. I do not find that hard to accept.

Mr. Milne: Mr. Chairman, we cannot speak for the CAB. Obviously there is a difference of opinion. If what you say they say is true, there is a difference between us, and could we leave it at that, sir. We cannot speak for them.

Senator Laird: There is not that much of a difference. Let Senator Desruisseaux read your recommendations:

Senator Desruisseaux: As you were speaking, I was reading your recommendations concerning the bill. You have two principal recommendations. The first one is:

1. Any legislation which could alter current Canadian broadcast activity on foreign-owned stations should have attached to it conditions which permit evolutionary in manner in order for the Canadian broadcast and business communities to adjust effectively and efficiently.

Before legislation in this area is enacted, there should first be an examination of the availability of new broadcast outlets in Canada and their potential

growth as practical advertising/business alternative media. That examination should involve a complete study of the ramifications of the bill and the problems that can be created as a result of the bill.

2. Implementation of the bill should be conditional upon agreement by the CRTC and in keeping with the CRTC's forward plans and policies for broadcasting in Canada.

Mr. Milne: If the bill is to be enacted.

Senator Desruisseaux: And that is your recommendation.

Mr. Milne: That is right.

Senator Macnaughton: If I understand your position, it is this: You do not like the bill. You would transfer all power, as it is at present, to the CRTC. You are 100 per cent for the CRTC, and you are not in favour of the bill. Is that too restricting?

Mr. Milne: And supplementing that, as legal counsel points out, with international agreement. We must join together, or however you want to put it, and work it out so the best things happen on this side with relation to things happening on that side.

Mr. Tomlinson: For clarification of "future ramifications", members of this committee and of this organization have been in opposition to certain aspects of what the CRTC has done from time to time, and will probably continue to voice opposition to certain aspects. However, all in all, I, myself, speaking for Hayhurst Advertising, am of the belief that the long term goals of the CRTC are totally compatible with the cultural goals as outlined by Mr. Faulkner. I am of the belief that the CRTC will accommodate those goals in time in a manner that does not need legislation in a tax area.

Senator Macnaughton: That is exactly what we just said; the CRTC is better than the bill, in your opinion.

Senator McElman: You are speaking of a period of time to accomplish these objectives. What time frame are you speaking of?

Mr. Tomlinson: Three to five years would accomplish it, in our opinion.

We have seen evidence—you gentlemen have referred to it—that the newer stations in Canada are growing. They are becoming more viable. They are becoming a more natural alternative to the border stations. This, we expect, will continue to grow specifically in line with some of the aspects of CRTC policy. As a result, we feel in a few years' time, by choice, we will be going to Canadian broadcasting in toto instead of having to go to the U.S.

This could be done, we feel, with no chaos, either at the broadcaster level or the advertiser level or, selfishly, at our level. We are, very frankly, in a position of looking at a juggler with six balls in the air. When we count this bill, the CRTC and a number of their viewpoints, we do not know where the future is. We do not really know what to recommend to our clients at this point in time, and we are the so-called experts. There is so much going on that it is chaotic at the moment.

Senator McElman: You spoke of a three- to five-year period, yet the fact is, I believe, that without this legislation over the last three to five years the share of the

advertising dollar going to the U.S. border stations has been on the increase—a greater percentage of the advertising dollar has gone there than to the Canadian stations. Is that not accurate?

Mr. Harrison: I do not believe we have the answer to that. We have so many estimates of how much money is spent across the border that we honestly do not know.

Senator Davey: You do not think it is \$20 million?

Mr. Milne: We do not know. We have no hard figures. We do not know if it is \$20 million today. If it is \$20 million today, we do not know how much it was yesterday. It is very difficult to get this information.

The \$20 million estimate which you use, and which a number of people use, is an estimate I created myself in a letter to Mr. Faulkner, after I talked to one or two houses that represent the border city stations, and some of the others. I have no knowledge, Senator Davey.

Senator Davey: It could be more than \$20 million?

Mr. Milne: It could be, and it could be less. We have no idea of precisely where it is or where it is coming from.

May I just lump together two questions asked and give a short answer as to what our position is?

Our position, very simply, is that the government appears to be using a blunt instrument to perform a very delicate operation too quickly. We think there are sharper instruments, and it should take a little longer to do this properly.

Senator Davey: Mr. Chairman, I wonder if I could ask you if it is your intention to ask the CRTC to appear before this committee?

The Chairman: It has not been settled. If the committee recommends it, of course we will invite them.

Senator Davey: I would direct this question to the witnesses. You are extremely enthusiastic about what the CRTC has done in the past, is doing now, and intends to do about broadcasting in Canada in the future. Are you aware that the CRTC supports this legislation? If you think they are such a marvellous organization, are you not impressed by the fact that they support the legislation?

Mr. Milne: Even marvellous organizations can make mistakes.

Senator Davey: You do not support the CRTC on this then? You support them when it is in your commercial interest to support them?

Mr. Milne: I cannot answer your question. I do not know their policy.

Senator Davey: Their policy is to support the bill. That is very clear. It is on the record.

Senator Walker: What else can they do? They are a Canadian commission set up by the Canadian government.

Senator Davey: That is right.

Senator Walker: What else do you expect them to do?

Mr. Milne: I go back to my earlier point that we support the policy which can affect us. We do not necessarily agree with the technique.

Senator Austin: I should like to ask some questions concerning the lower mainland. Yesterday I asked Mr. Bellman of Western Approaches a question about whether his application and his investors would survive if the bill were not passed. I wonder whether, as people who act for advertisers, you can give me an answer to that question.

Mr. Milne: I am sorry; because of the noise, I did not hear your question.

Senator Austin: Yesterday I asked Mr. Bellman, who heads Western Approaches, or at least was representing Western Approaches here, whether his company, which as you know is a VHF station in the Vancouver market to come into operation in September this year, could survive without the passage of this bill. Do you think, as people who represent advertisers, you would be giving Western Approaches any support without the provisions of Part III of this legislation?

Mr. Harrison: My comment would be that clearly there has been a very serious problem for advertisers in that market in finding time to buy. As we have said, one of the reasons that we go across the border is because there is so little time to buy. We have discussed this in the past. Our thought was that you almost need two stations in Vancouver, a "V" and a "U", to accommodate the kind of business that is probably available.

Senator Austin: You find that market is more sold out—

Mr. Harrison: Yes, because it has a more limited inventory.

Mr. Tomlinson: I would respond simply that the Vancouver market can very easily support four viable broadcasting outfits. I would hazard a personal opinion that the new Vancouver station will gain success faster than any other newly licensed Canadian station has over the past three or four years.

Senator Laird: Even though it is UHF?

Mr. Harrison: Yes. One of the reasons for that is that there is a large number of cable television homes in Vancouver; so that their ability to distribute the signal is much greater than it might be in Toronto or Edmonton.

Senator Austin: What would happen to KVOs, if you are right?

Mr. Tomlinson: KVOs will continue to survive also, if they are allowed to accept advertising on a normal basis in this country. If the bill goes through, obviously KVOs will suffer. I personally believe —

Senator Davey: Would they go out of business?

Mr. Tomlinson: I doubt it. I cannot answer that. I do not know what their economic situation is in those terms. Right now we have three stations in the Vancouver market—it is a real seller's market—and it is my belief that we can afford a fourth station, specifically one that is Metro Vancouver. There should be an enormous amount of retail dollars that are looking for just that opportunity. As you may be aware, CHAN-CHEK is not a Vancouver station. It is a B.C. station and covers the entire province. It cannot be bought in any other way. A Vancouver retailer has no use for CHAN-CHEK. The CBC does not necessarily supply a local broadcaster with availabilities to get into

the marketplace. I believe all four could be very viable, profitable organizations.

Senator Austin: Mr. Bellman must have been talking to you along the same lines, because he gave us a very heavy pitch for metro broadcasting in Vancouver. He indicated to us that KVOS was its competition in that particular market. In the KVOS brief, Mr. Mitz—who is sitting behind me and will correct me if I misstate his representation—says that they can survive, and will survive, in the Vancouver market with Western Approaches presence. They will have to cut rates in order to do so. I wonder whether you, as advertisers, will welcome the rate competition that KVOS will provide the Vancouver stations.

Mr. Tomlinson: Most definitely.

Mr. Harrison: But would Mr. Mitz's position be that of only cutting rates if the tax legislation goes through?

Senator Austin: Yes; on the assumption that the bill passes, he will cut rates in order to offer advertisers, the people you represent, the same costs on his station as you have on other stations.

Mr. Milne: There is a point of clarification that we might make here. That is, while we speak for national advertising, we do not speak for all station revenue. If my memory serves me correctly, I think something like 60 per cent or 70 per cent of all television station revenue is from national advertisers, and 30 per cent to 40 per cent is from local retail advertisers. So there is income coming locally that the advertising agencies have nothing to do with.

Mr. Harrison: As a general figure, it is true, but it would be my impression, from statistics, that in a market like Toronto, Vancouver or Montreal, local advertising is, in fact, higher and sometimes exceeds that of national advertising.

Senator Cook: It would certainly be very much higher than St. John's, Newfoundland.

Mr. Tomlinson: I should mention that I have not spoken to Mr. Bellman since the day in Vancouver at the CRTC hearings when he was applying for that licence; but I am rather delighted that we have at least one area of commonality of viewpoint. It has been insinuated that we are in opposition to CAB's viewpoint, and I do not believe that we are in too many areas.

Senator Austin: I was not suggesting opposition of viewpoint. I was referring to Mr. Bellman in order to let you comment on some things he said to us. I understand that Hayhurst and MacLaren advertisers are entirely Canadian-owned advertising agencies, and J. Walter Thompson is an American-owned advertising agency.

Mr. Phillippe Fiset, Vice-President, J. Walter Thompson Co. Ltd.: Yes, Mr. Chairman. I must say that as a national director of broadcast services, I do not pretend to be, like my colleagues here, an expert in the media area—that is, time hirers, and so on. But as a member agency of the Institute of Canadian Advertising, we support as much as possible the views expressed in today's presentation.

I might also add that we are opposed to any unnecessary expedient. This statement is based purely on questions and thoughts arising from our own discussion on this issue. While our experience may be narrow, our concerns too cautious, our enthusiasm too ambivalent, we nonetheless

believe that the magnitude of this complex subject does require further input and thought prior to any permanent action being implemented; and hopefully targets and actionable programs can be jointly developed by industry and government to meet mutual needs.

Arising from what Mr. Milne said in his first exposé, I see a recommendation regarding the bill, paragraphs one and two. That is our position. We represent both Canadian and foreign-owned clients, and all have different needs and resources.

Senator Austin: Does your company resent the fact that the federal government does not use foreign-owned advertising agencies to place its business in Canada?

Mr. Fiset: I would like to refer this question to Mr. McCracken or Mr. Milne.

Mr. Milne: I cannot speak on behalf of the J. Walter Thompson Company.

Mr. Fiset: I am not in a position to reply.

Mr. Milne: I do not know whether or not they resent the fact —

Senator Austin: Does your association take a position with respect to the federal government's discrimination towards Canadian-owned advertising agencies?

Mr. Milne: We have not taken a position. The association which I represent has both foreign-owned and Canadian-owned members. It is simply that in terms of what we are talking about today, the ownership of the agency does not create any differences in the position we have taken. Whether they are American owned, British owned or Canadian owned, they all feel roughly the same way. You are raising a new issue, senator, which I am sure is not part of our submission.

Senator Hays: You are presenting a united front?

Mr. Milne: Yes.

Senator Hays: Mr. Chairman, I should like to get back to the original part of this discussion. As a group, you feel sure that all of the independent small stations throughout Canada, from Newfoundland to Nanaimo, are going to be hurt by this legislation?

Mr. Tomlinson: I cannot answer that in a positive way, senator. All I can say is that I feel they may well be. I reiterate my remarks that over the past three or four years a number of smaller markets have been dropped from the advertisers' lists of markets, simply because of the need to go where the people are, to go to the major markets. If the price increases—and we firmly believe it will—in the Toronto and Vancouver areas as a result of this bill, bearing in mind it will result in a diminished supply and increased demand, we believe that, as a natural course of events, a large number of secondary markets will, of necessity, be stricken —

Senator Hays: If the smaller stations disappear, then it is reasonable to suppose that the small manufacturing areas that service those smaller localities throughout Canada would not have that medium on which to advertise?

Mr. Milne: If the stations disappear, no one has that medium on which to advertise.

Senator Hays: Yes, so the economies of such cities as Kelowna, Saint John, Amherst, and so forth, would suffer.

Mr. Harrison: If I may add to that, there are two other factors which should be borne in mind. First of all, the cost of buying television over the last 10 years has increased at a greater rate than advertising budgets. Advertising budgets, as a proportion of the gross national product, have in fact diminished over that period. So, we have, essentially, a great deal of financial pressure coming to bear already, which has over the last few years resulted in the dropping of smaller stations. This move, we believe, would be another way of dropping the smaller station from our recommendations.

Mr. Milne: Perhaps I can make a point that may not be obvious to members of the committee, Mr. Chairman. Perhaps we are assuming members of the committee understand our business better than in fact is the case.

An advertising budget is established by a client, be it \$1 million, \$2 million or \$3 million, and with that money the agency has to decide which programs to purchase, the messages to use and the medium to be used. It may not be broadcasting. The amount of the advertising budget is fixed. If the costs start to escalate within the medium chosen—and we are talking about television—then obviously the advertising agency is going to use the top markets first, such as Toronto, Vancouver, Montreal and Winnipeg, and as the budget is used up, you simply start cutting off the stations at the bottom of the list. When you get into a situation of escalating costs, the number of markets that can be accommodated by a given advertising budget is reduced. As a result of the reduction in markets, advertising revenues are taken away from the smaller areas.

Mr. Tomlinson: I should like to point out, also, that in today's marketplace the AIB, in effect, is holding down the increase in advertising budgets. The advertiser who wishes to increase his budget has a very difficult time in so doing. Conversely, a station can raise its rate higher than AIB regulations by proving that the cost of their product has gone up substantially.

If I could take the time of the committee for just a moment, this year's buying season by the broadcasters has just finished. Last year, CTV and CBC paid approximately \$4,000 for each half hour of U.S. programming purchased for their schedules. That cost, for this fall's schedule, has risen to \$6,500 on average, or approximately a 62 per cent increase. The percentage represented by the sheer cost to the suppliers of making that film would be 20 per cent, and 40 per cent of it would be based on the bidding that is going on to buy the programming. We now have four groups in Canada buying U.S. properties, CBC and CTV, Global, and a group of independents, such as CHCH-TV Hamilton, and all the new stations in the West. To get good product to headline their programming so as to attract good audiences for their Canadian product, those four groups are now in competition to pay a national rate. As a result, there has been a 62 per cent increase in the cost of the U.S. product to the two major Canadian networks, and close to a 500 per cent increase in the cost to the CHCHs, the independents, and the Global network. They can therefore readily raise their rates on the basis of the increased cost of their product. Our advertisers, however, cannot raise their budgets accordingly. Thus, again, it all keys into the fact that we will be looking at the major markets, the

priority audience markets, to the detriment of the lesser markets.

It is in this respect, Mr. Chairman, that we are in opposition to CAB. There is the possibility that some of those minor markets are not necessarily aware of that ramification that will take place in the next year.

Mr. Milne: Adding to that, AIB categorizes an advertising expense as a restricted expense. Therefore, it cannot be used to justify any increase in cost. Of course, we do not know how long the AIB will be in effect.

Senator Macnaughton: Mr. Chairman, it seems to me that these gentlemen have made one valid point, that being that they wish to phase in changes gradually through the CRTC rather than an abrupt change through Bill C-58. Is that your position?

Mr. Milne: I think that sums it up, senator.

Mr. Tomlinson: That, plus the aspect of international negotiation.

Senator Macnaughton: Yes.

Mr. Harrison: And investigation as to the nature of the problem. In other words, is it really a national problem or is it in fact a regional one?

Senator Davey: Mr. Chairman, I have a series of questions. I would like to begin by clearing up the matter of the Canadian Association of Broadcasters' brief which we heard yesterday. Would the witnesses agree with me that a majority of the member stations of the CAB would be described as minor market stations?

Mr. Milne: We do not know personally from our knowledge, but I heard you say they were, Senator Davey.

Senator Davey: Well, I have inquired since this hearing commenced and I am informed that that is the case. I am also informed, for your information, that not one single minor market station in the CAB disagreed with the brief which the CAB presented to this committee yesterday in support of the legislation. I understand that there is a clear disagreement between you and the CAB. I do not quarrel that you take that position, but I think you should understand that the minor market stations in Canada do not agree with the point you are making.

The Chairman: Senator Davey, that is something that did not come out yesterday when the CAB appeared before the committee. By the indirect route, you are giving evidence today, are you?

Senator Davey: I do not think so, Mr. Chairman. I think it did come out yesterday. The CAB appeared before the committee in support of the brief. I am only making the point that a majority of its members are minor market stations.

The Chairman: Well, I think to get on base you would have to pose that as a question.

Senator Davey: Well, I will just leave it at that.

The Chairman: You cannot present it as evidence on their behalf.

Senator Davey: I do not know how I would phrase it as a question, Mr. Chairman. I prefer to leave it as said. It is not a particularly important matter. We had the brief yester-

day. I simply wanted the witnesses to know that the CAB did not agree with them.

Before I leave that point, I believe Mr. Tomlinson said you were interested in these minor market stations. May I ask you if Ottawa is a minor market area?

Mr. Tomlinson: No, senator, Ottawa is a major market.

Senator Davey: At the end of the presentation by Busheell Communications Limited yesterday, they showed us a film of television commercials which appear on one of the U.S. border stations that is available to the Ottawa market on cable. I believe it was Burlington or Plattsburg, or perhaps a Watertown station. I am not sure which one it was. It was one of the stations available to us on cable in Ottawa. They showed us four, five or six local stations. It was clear that the Watertown station had advertising salesmen on the street in Ottawa soliciting local advertising. Do you think that is a healthy situation?

Mr. Harrison: If I might give an opinion, it seems to me that that is a problem, and that it would be easily handled if perhaps the CRTC, as a condition of licence to cable companies, would in certain parts of the country, where it was required, demand that the cable company not give carrots to stations that engaged in that activity.

Senator Cook: Not give what?

Senator Laird: Carrots.

Mr. Harrison: Disallow the showing on cable systems of foreign stations that engaged in that activity, where a station was not normally part of the market, was not able to be received, but is overnight allowed into the market to disrupt the audience patterns, and at the same time may try to sell advertising to local manufacturers.

Mr. Milne: May I directly answer your question, Senator Davey? I would put it this way. We are back to international affairs again. To answer your question, "Yes" is one way of putting it. But you would also ask, what about the salesmen we have in New York and Washington doing exactly the same thing?

Senator Macnaughton: You mean we have Canadian salesmen in New York?

Mr. Milne: We certainly do. As I understand it, Standard Broadcasters has an office in New York selling time.

Senator Davey: To national advertisers?

Mr. Milne: I don't know to whom they sell it, but they sell in New York.

Senator Davey: They would not sell to local advertisers?

Mr. Milne: I don't know to whom they sell. All I know is that they have salesmen.

Senator Davey: Come on! You know they don't sell to local advertisers. Incidentally, you are aware that, under the legislation, advertising on a border station by a Canadian advertiser directed specifically at the American market—the best example of which is the Windsor Raceway, advertising of the Windsor Raceway placed on American border stations in Detroit—will still be tax deductible under this legislation. Are you aware of that fact?

Mr. Milne: Yes.

Senator Davey: Would you agree with that?

Mr. Milne: Yes, I would.

Senator Davey: I would like to come back to your objectives. We have already had a discussion this morning about the various objectives of the ICA. Did the ICA appear before the committee of the Senate, I believe chaired by Senator Bourget, or did you appear before the CRTC or any other agency of the government in support of the proposed Canadian content regulations for television or broadcasting?

Mr. Milne: No.

Senator Davey: Did the ICA appear before the CRTC or any Senate committee, or any other agency or committee of the government, at the time of the proposed Canadian regulations in support of those Canadian content regulations on radio and television?

Mr. Harrison: We did, I believe, in 1969 and 1970.

Senator Davey: In support of the regulations?

Mr. Harrison: We appeared, talking to the regulations.

Senator Davey: But were you in support of them?

Mr. Harrison: We were in support of the objectives.

Senator Davey: Were you in support of the regulations?

Mr. Harrison: Not specifically, as they were drawn.

Mr. Milne: I am sorry, which regulations do you refer to?

Senator Davey: The Canadian content regulations on Canadian radio and television.

Mr. Milne: For broadcasting?

Senator Davey: On radio and television.

Mr. Milne: ICA has always been in support, and has worked through the joint broadcast committee with CRTC to support the increase in percentage of Canadian content.

Senator Davey: I have the distinct impression that when the ICA appeared before the Special Committee of the Senate on mass media they opposed those regulations. Am I not right?

Mr. Milne: No.

Senator Davey: I think Mr. Fisette was going to say something.

Mr. Fisette: Yes. I do not know if it will answer your question, Senator Davey. In fact, in July, 1973, J.W.T. made a presentation to the Standing Senate Committee on Transport and Communications regarding the Canadian commercial content.

Senator Davey: But were you in support of it?

Mr. Fisette: Yes.

Senator Davey: That was your particular agency which was in support of the Canadian content requirement?

Mr. Fisette: The content. However, let us say to a certain degree in time. The implementation of the whole thing should not have happened six months afterwards. I do not have the brief in front of me and I do not have the presentation, but if I recall correctly that was our view, because I was there.

Senator Davey: You were there and I was there, I remember.

Senator Laird: So was I.

Mr. Fiset: That was the only point I wanted to make at this moment.

Mr. Milne: I can add two things to that. First, with regard to content in terms of broadcasting, ICA does undertake negotiations with ACTRA and Union des Artistes, and we are on record as supporting and encouraging the greater use of Canadian artists.

Senator Davey: I have no doubt you support those things now.

Mr. Milne: We always have.

Senator Davey: With great respect, Mr. Milne, I don't think you did. I am not sure whether you were present —

Mr. Milne: I was.

Senator Davey: You did not support it before our committee.

Senator Cook: It is not very relevant though.

Mr. Milne: I don't recall, but —

Senator Davey: If I have an unfair impression, please correct me. As you know, I have said this publicly, and we have corresponded about it. You come before us now saying that these are commendable objectives somewhere off in the distant future, and it seems to me that has always been the position the ICA took. It took that position on Canadian content that these are laudable, commendable objectives, but sometime off in the future. I would suggest, and ask you this as a question —

The Chairman: Senator Davey, I believe the witness started to answer the first part of your question and then you started to elaborate. Perhaps you would let the witness answer.

Senator Davey: I apologize; I am sorry.

Mr. Milne: The second point I wanted to make was that it is in the interests of all Canadian agencies, no matter what their ownership, to have 100 per cent Canadian content, because the more commercials that are produced in Canada the more the agency makes. This is a selfish economic thing. We have never gone out and said that, but that would be an act of truth.

Senator Cook: Why?

Mr. Milne: Because the agencies participate in the manufacture of the commercials and earn money from them. If they are made elsewhere by somebody else, as some manufacturers do, and are brought in, then the agency takes no part in the production of those commercials.

Senator Davey: Has the ICA appeared before the royal commission on media violence in Ontario?

Mr. Milne: No, we have not. We have had some discussions with them. They have received a brief from us but we have not been invited to appear.

Senator Davey: Did the ICA appear before the Ontario Committee on Economic and Cultural Nationalism?

Mr. Milne: Members of ICA did.

Senator Davey: Individual members?

Mr. Milne: Individual members, and we sat through the hearings. As a matter of fact, we did appear. I am sorry, I am confused. I have made eight appearances in the last three or four years and I am getting confused as to where I did appear. We did not appear before that one.

Senator Davey: I have a list, and I do not think you appeared there. ICA did not appear but individual member agencies did.

Mr. Milne: I sat through all the hearings.

Senator Davey: Mr. Chairman, I think the Ontario Committee on Economic and Cultural Nationalism does have some relevance to this hearing, so I would like to ask Mr. Turner, who is the President of MacLaren Advertising, what was the thrust of the MacLaren presentation to that committee, the Ontario Committee on Economic and Cultural Nationalism.

The Chairman: On what point?

Senator Davey: What was the thrust of their —

The Chairman: We are not going over all the lot.

Senator Davey: The committee was dealing with economic and cultural nationalism, which I would suggest is the purport of this legislation.

The Chairman: We are dealing with this bill, C-58.

Senator Davey: All right. Then did the MacLaren presentation to that particular committee make any comment on legislation which might affect magazines and radio and television stations in Canada?

Mr. Turner: I do not think MacLaren's as such made a presentation to that committee.

Senator Davey: MacLaren's did not make a presentation. Did J. Walter Thompson make a presentation?

Mr. Fiset: Yes, we did.

Senator Davey: Did you discuss magazines and television and radio stations when you appeared before the committee?

Mr. Fiset: At that time I guess I was based in Montreal and I am not too aware of what was going on there.

Senator Davey: Mr. Milne, what was the central recommendation of that committee with relation to advertising agencies?

Mr. Milne: There were a number of recommendations and I cannot remember them; I am sorry. I would just be guessing.

Senator Cook: If the views advanced by the witnesses are reasonable, what difference does it make if they are good fellows or bad fellows?

The Chairman: We are concerned about their presentation here and we are concerned with the question of credibility, as to whether they have said anything different anywhere else.

Senator Macnaughton: Otherwise, we are dealing with hearsay evidence.

Mr. Milne: We said nothing before that committee.

Senator Davey: Now, I would ask you about the membership of ICA.

Mr. Chairman: In the brief we have received there is reference to a letter on periodicals, which was filed with the committee. On October 17, 1974, you filed a letter with the committee.

The Chairman: What is the date of the letter?

Senator Davey: It is on page 5 of the brief.

The Chairman: Is this the one addressed to Mr. Faulkner?

Senator Davey: I do not know. It says, with reference to periodicals, and I quote:

This position paper has concerned itself with the implications of the bill, vis-à-vis border station broadcast advertising. However, the bill also deals with periodical advertising. ICA has, by letter dated October 17, 1974 (copies of which have been provided to your committee), previously presented its position on that aspect of the bill.

I would very much like to have a copy of that letter, if I could.

Mr. Milne: There were two letters sent, on one periodicals and a second letter of broadcast. You are referring to the one on periodicals which we sent to Mr. Faulkner in the latter part of 1974, and to a number of other ministers.

The Chairman: Is that the letter of November 8, 1974?

Mr. Milne: If it is the one on periodicals, yes.

The Chairman: It is part of the brief.

Mr. Milne: Yes.

Senator Davey: I do not have it in my brief.

Mr. Milne: When the Commons committee under Mr. Guilbault, I think, was set up, copies of those letters were sent to him and to the members of that committee. We asked for the right to appear before that committee and that right was not granted.

We then heard this committee was being formed. I sent copies of the letter, the one on periodicals, along with the one on broadcast to Mr. Jackson. He then invited us to make an intervention and to take part in this meeting. As far as I know, Mr. Jackson has distributed those letters to all members of the committee.

The Chairman: That is right.

Senator Davey: Thank you. Senator Macnaughton has given me a copy, and I will take a look at it in a moment or two.

I would ask you about the membership of ICA. You say you have 85 per cent of all national advertisers, is that correct?

Mr. Milne: You are misinterpreting, sir. There are approximately 300 advertising agencies in Canada, and something like 52 or 53—it varies from day to day—belong to the Institute of Canadian Advertising. Those 52 or 53 members handle about 85 per cent of all national advertising.

Senator Davey: What would that 85 per cent represent, in dollars?

Mr. Milne: Somewhere between \$650 million to \$700 million or \$750 million.

Senator Davey: For the sake of argument, let us say it is \$700 million. You may not know this, but how much would be billed by the 248 agencies that do not belong?

Mr. Milne: The remaining 15 per cent—it would be roughly, as related to 85 —

Senator Cook: \$100 million.

Mr. Milne: Approximately \$100 million. We do not know exactly; it is just a guess.

Senator Davey: How much money is spent in Canada by local advertisers; any idea?

Mr. Milne: According to Maclean-Hunter estimates published once a year, the revenue received by all media in 1976 will be approximately \$1.4 billion, as I recall. So, that includes classified advertising, local advertising, anything you can think of. These are the receipts of media of all types—outdoor, print, magazines, weekly papers, everything.

Senator Davey: Therefore, ICA represents 50 per cent of all the advertising funds in Canada, in round figures?

Mr. Milne: No.

Senator Davey: \$1.4 billion, and you fellows bill \$700 million.

Mr. Milne: My normal guess would be about 45 per cent.

Senator Davey: Is it fair to say that of that 45 per cent, you represent the bigger advertisers?

Mr. Milne: No, we represent the bigger advertising agencies. We have some small advertising agencies. Our members represent all kinds.

Senator Davey: I should perhaps put this question to Mr. Harrison. The clients of the member agencies of ICA are the bigger advertisers in the country, by and large?

Mr. Harrison: I think the bigger advertisers in the country tend to hire the members of ICA as their agents. However, I would point out, say, from MacLaren's point of view, that I think we have approximately 94 clients, and I believe that over half of that number are advertisers that spend less than \$200,000 a year. So, I would consider them to be small clients.

Senator Davey: The overwhelming majority of advertisers in Canada, who spend anywhere from, I suppose, \$5,000 to \$50,000, do not use advertising agencies at all?

Mr. Harrison: They may not and probably do not use mass media, which probably would be restricted to sales promotion and maybe trade magazines.

Senator Davey: The committee, Mr. Chairman, might find it helpful if Mr. Milne explained how advertising agencies derive their revenue.

Mr. Milne: To get a fair answer to that question I think you should ask Mr. Turner. It is within his expertise.

Mr. Turner: Primarily by business practice, from inception, our revenue is derived from the 15 per cent commis-

sion from the media. In our own particular agency, as I think it is generally in larger agencies, the free revenues have risen tremendously. Those fees are paid by the client, where the client's expenditures in the media do not pay for the services of advertising. A fee is then negotiated with that client. I think that can be anywhere from 40 to 50 per cent of major agency revenue at the moment.

So, to answer your question, Senator Davey, we derive our fees from two different sources, one from the clients and one from the media.

Senator Davey: Which is the bulk of it?

Mr. Turner: Commissions.

Senator Davey: Who pays those commissions?

Mr. Turner: The media.

Senator Davey: Is that true of all media—magazines, newspapers, radio and television stations?

Mr. Turner: Yes.

Senator Davey: They all pay you 50 per cent of the advertising you place?

Mr. Milne: I would not put it that way. I would say that when you buy \$100 worth of time or \$100 worth of magazine or newspaper for a client from a broadcaster, or from a print organization, they sell it to you for \$85 and you bill your client \$100. So, they allow you a discount—that is really what it amounts to.

Senator Davey: That is true for all media?

Mr. Milne: I do not know.

Mr. Harrison: I think it is substantially true.

Mr. Milne: Possibly not direct mail but all major media, yes.

Senator Davey: Is it not true that advertising agencies, as any business enterprise, are extremely interested in profitability? I think that is a fair statement.

Mr. Milne: Who isn't?

Senator Davey: Who isn't, that is correct. I think that was said by Senator Beaubien. Senators are not!

Mr. Turner: I hope not.

Senator Davey: The question I want to ask you is, is it not more profitable for an advertising agency to place time in bigger publications and on bigger television stations than in small publications and on small television stations?

Mr. Harrison: I believe that it is more profitable. I do not believe we would consider that —

Senator Davey: I am not asking you what you would consider. I am asking if it is more profitable.

Mr. Harrison: If you were buying space in a magazine or time on television, and it cost you \$1,000, clearly to send the commercial to that station would return more money than to send it to a station where you would be paying \$100.

Senator Davey: That is not my question. Is it not more profitable to buy time by spending \$1,000 on one station than to spend \$100 on ten stations?

Mr. Harrison: Yes, it is more profitable.

Senator Davey: Would it not be more profitable, for example, to place an advertisement in *Time* magazine than to place a comparable size advertisement in three or four Canadian magazines?

Mr. Tomlinson: Yes, but it would be far more profitable to place all our money in weekend prospectees and Canadian magazines, because their unit cost is far higher than all of the magazines put together.

Senator Davey: That may be —

Mr. Milne: The profitability is not a consideration in deciding whether the client wants to advertise. You are looking for audience, and profitability is the last thing you think of in the light of that decision.

Senator Davey: I am only making the point that bigger is more profitable.

Mr. Harrison: Yes, but our greatest profit will come from spending our clients' funds in the most efficient and effective way, because by helping to build their business we will build our business.

Senator Davey: In your brief you say:

To understand our concern as to why the legislation will probably not accomplish its intent —

You say "probably." That means that possibly it could, I suppose. You say:

— plus the additional problems it can create,—

Then you list six things. Under number one you say:

A reduction in advertising of Canadian products on border TV stations will not alter Canadian viewing habits.

I wonder if you could tell us your views on what exactly would alter Canadian viewing habits. It is on page 2, the first sentence and the last paragraph on the page. The witnesses made the point that reduction in advertising will not alter Canadian viewing habits. I am sure they will agree with me that they have already made the point, and I accept it, that they would like to see more Canadian viewing. What steps do they think should be taken to increase Canadian viewing?

Mr. Milne: The simplistic answer would be an iron curtain between Toronto and Buffalo so that they could not receive the signal.

Senator Davey: Would you favour that?

Mr. Milne: No, I would not.

Senator Davey: What steps would you favour?

Mr. Tomlinson: The answer to changed viewing is to give viewers the type of programming they wish to see.

Senator Davey: Which costs money.

Mr. Tomlinson: Yes.

Senator Davey: Would you comment on this: the CAB said yesterday that one of the reasons they support this legislation is because they would have more money to make better programs and to attract more audience.

Mr. Tomlinson: I was not present at yesterday's hearing, but I read some results in the paper this morning. Based on figures of what they feel they would gain and

what would be left over, I do not think they would accomplish a great deal in better programming.

Senator Davey: But you would agree with the theory. You have already made the point that if the Canadian stations need more money to make better programming, that is a commendable objective. You may not think that is possible. But they made the point yesterday, and you may disagree with it.

Mr. Milne: The difference of opinion, if there is one, between us would be that they think the dollars would go there immediately, and we are not so sure they would.

Mr. Tomlinson: We believe this could be accomplished with some sort of subsidy rather than tax act deductions.

Senator Davey: Subsidy from whom?

Mr. Tomlinson: The government.

Senator Davey: You think the government should subsidize the private stations?

Mr. Tomlinson: Perhaps.

Mr. Milne: I do not know that I would necessarily agree with subsidies. Broadcasters have the same problems as all Canadian industry. They have small audiences, short runs and higher costs. I do not know that subsidy is necessarily the answer. I have a reluctance in my bones to subsidy. Possibly there are other approaches.

Senator Davey: We are all agreed that it is a commendable objective to increase Canadian viewing. We do not know how it is going to be done. The minister thinks this will achieve it, the CAB thinks this will achieve it, and you do not think it will. But you agree with the objective.

On point number two, at the top of page 3 you say:

TV advertising funds not spent on a border station will not necessarily be redirected to Canadian TV.

Where do you think the money would go?

Mr. Harrison: I think some may go out of the medium—out of media altogether. You could put, say, toys into that category.

Senator Davey: Is that necessarily a bad thing?

Mr. Harrison: Let it go out? I think generally we all concur that the whole idea is to try to generate the maximum expenditure in the Canadian media. I do not believe that money would come back.

Senator Davey: That is your, the ICA objective—to generate the maximum amount of money?

Mr. Harrison: I think it would be our objective.

Senator Davey: That is the reason why you have this particular concern?

Mr. Milne: Some of the smaller companies, which do not necessarily use member agencies, might not advertise at all; so that business might be hurt in the long run.

Mr. Turner: Might I help answer that question, Mr. Chairman? If I were returning to what I think is the thrust of this appearance, it is, in fact, a business presentation. That is number one. Number two is that it is a professional presentation and we owe an obligation to our clients to create the most effective way to communicate their product or service to the public. That may not necessarily be in

commissionable media. It could be in sales promotion or in other sales aids. But that is a professional concern—for which we get paid also, senator.

Senator Davey: If this legislation passes—this is under point three of your list—surely your member agencies would not counsel multinational advertisers to frustrate the legislation by buying in the States, would they?

Mr. Milne: We have no control —

Senator Davey: Surely you would counsel them not to do that, would you not?

Mr. Milne: I think we would counsel them not to do that; but bearing in mind their parent companies are already advertising in those areas —

Senator Davey: That is happening now.

Mr. Milne: That is happening now. This is something over which Canadian agencies would have no control.

Senator Davey: But I am sure you counsel multinational advertisers on their corporate responsibilities as good citizens. I am sure you would not urge them —

Mr. Turner: I believe that has an economic fallout. It would not be in the interests of their economic condition to counsel them to use American outfits.

Senator Davey: I may perhaps have some questions on periodicals. I share Senator Buckwold's bewilderment on your appearance here in contrast to the appearance yesterday of the private broadcasters, and some of the people with them. They had Mr. Bellman from Vancouver, Mr. Slaight from Global, and Mr. Nichols, I believe, from Bushnell. Mr. Slaight made a very effective presentation on availabilities on Global and the fact that the Global audience is growing. I note in the attendant brief, the appended document, exhibit 2, you talk about "Prime Viewing Time," and you list these various stations as being sold out. First, that is not the impression we gained yesterday from the private broadcasters; and, secondly—I put this to you, Mr. Tomlinson—you must place a great deal of your clients' money in television at other than prime time.

Mr. Tomlinson: Yes, sir.

Senator Davey: So the fact that prime time is sold out—and whether they are right or you are right, I accept what you say here—is somewhat misleading, because non-prime time is not sold out, and also these stations' share of the market is increasing. The thrust of Global's presentation was, "We are more attractive and we have availability." Do you disagree with that?

Mr. Tomlinson: May I answer the two questions? Prime time is our basic concern. This is relatively technical, and I will try to make it clear. We are after reach of the marketplace. If we buy a spot in Ottawa in prime time, we can reach 20 per cent of the audience with that one spot. With three or four spots, we can up our reach to about 60 per cent. If prime time is sold out and it is necessary for us to buy off-prime time, we could spend about the same amount of dollars in off prime time and only reach 20 per cent with great repetition. Off-prime does not offer us the opportunity to reach the entire marketplace.

I should also point out that when we buy prime time, we are forced, by the method of sale of the stations, to buy off-prime to go with it. For example, if we want a commer-

cial placed in a top show such as "The Waltons," we must spend 30 per cent or more as much money in daytime or late night in order to acquire that really good property. That is one of the reasons we spend a lot of money in off-prime time spots.

To go to your second question, there is no doubt that Global has been growing, not only in its ability to reach the marketplace of southern Ontario, but also in its ability to sell product. It has been performing better. Exhibit 1 to our submission shows that growth. Exhibit 1 also contains exact figures, because it would have been unfair to do otherwise. I would like to point out to the committee that we show Global growing from a 36 per cent coverage to a 58 per cent coverage in a year. The real truth of the matter is that Global's total station has only grown from 36 per cent to somewhere in the neighbourhood of 40 to 44 per cent level. It reaches 58 per cent of the Toronto market because of one program, the Wintario Lottery show, which has become the top program in all of Ontario. If you take that half hour out of its programming, its reach of the marketplace would drop to about 40 to 44 per cent.

Senator Desruisseaux: Do the other stations have that program?

Mr. Tomlinson: No, Global and some northern broadcasting stations are the only ones with that program.

Senator Davey: So, Exhibit No. 1—and I was going to make this point—contains a very misleading set of figures, doesn't it?

Mr. Tomlinson: Only in respect of the figure for Global. In putting this exhibit together, I debated showing only 44 per cent, which would have been opposite to what Global may have presented to you. Instead of that, I used the figure that Global would use, and I am now taking the opportunity to point out that it is an inflated figure.

Senator Davey: Still dealing with Global, they left us with a presentation which I am sure, as Global's agency, you have seen. This presentation shows that from 4 p.m. to 6 p.m., Monday to Friday, November, 1975, CFTO had 20 per cent, followed by Global with 17 per cent, and after Global it shows WKBW with 11 per cent; WGR, 8 per cent; WBEN, 10 per cent; CHCH, 6 per cent; CBLT, 5 per cent, and CITY, 12 per cent. Your program is not on between 4 p.m. and 6 p.m. Are those figures correct?

Mr. Tomlinson: What exactly are those figures, senator?

Senator Davey: I will quote it exactly. It says: "Source: A.C. Nielsen, Toronto Central Area Average. Quarter hour household share, Monday to Friday, November, 1975." I will produce it to you. It is the middle graph I have been referring to.

Mr. Tomlinson: A number of different sources and statistics can obviously be prepared.

The Chairman: Perhaps you could identify for the record what it is you are looking at, Mr. Tomlinson.

Mr. Tomlinson: I am looking at a sales promotion piece from the Global TV network.

The Chairman: Is there any date on it?

Mr. Tomlinson: It is entitled "We've Got It." The inference is that Global has the audience; that it has Canada's fastest growing TV audience.

Senator Davey: You would agree with that, surely? There is no doubt about that.

Mr. Tomlinson: Yes, indeed.

Mr. Harrison: Mr. Chairman, there is no date on this document.

Senator Davey: I think it was said yesterday that it is being distributed currently.

Mr. Tomlinson: There is a date on the information, which is from November of 1975. I would not care to argue with Global's figures. I think they are probably accurate.

Senator Davey: These are not Global's figures; they are Neilsen's figures.

Mr. Tomlinson: That is right. Global shows enormous strength compared to the other stations in the marketplace in the 4 p.m. to 6 p.m. period and the 6 p.m. to 7 p.m. period. That is where Global is strong, ranking first or second. It is very good programming on behalf of Global. From 4 p.m. to 6 p.m., it's 100 percent American programming, and the 6 p.m. to 7 p.m. spot is news, which is placed at a time when little other news is on the air. It is good alternate programming on the part of Global, and buying of those time periods can get the purchaser a good effective campaign, or part of a campaign, for those time periods. When an agency buys a spot between 4 p.m. and 6 p.m., it gets a share of the audience in that time period.

Senator Davey: Mr. Tomlinson, as you know, I live in Toronto and I see the Buffalo station quite regularly. It is not unusual to see advertising placed by member agencies of ICA in the 4 p.m. to 6 p.m. period and the 6 p.m. to 7 p.m. period on the Buffalo station.

Mr. Tomlinson: Yes, that is what we call reach extension bias. We buy prime time and we are forced to buy that particular period of time on the other stations.

Senator Davey: Are there not some national advertisers who would prefer the 4 p.m. to 6 p.m. time period rather than the so-called prime time period?

Mr. Tomlinson: Yes, such advertisers as Wrigley's Gum and manufacturers of youth-oriented products, because the 4 p.m. to 6 p.m. time period is a highly youth-oriented one.

Mr. Harrison: I think it might be misleading to say Global has a 17 per cent share without knowing what it has a share of. That would be a 17 per cent share of the available audience at that time.

Senator Davey: Yes, of course. The only point I want to make, on which I invite you to comment, is that Global does have an increasing audience.

Mr. Tomlinson: Yes.

Senator Davey: And it does have availability?

Mr. Tomlinson: Yes.

Senator Davey: Why, then, are you not impressed by the fact that representatives of Global appeared before this committee yesterday and said they needed this bill to help.

Mr. Tomlinson: For exactly that reason, senator. Its audience is growing; it does have availability for that audience. Frankly, it does not need this bill in order to grow, in my personal opinion.

Senator Davey: That is your opinion.

Senator Cook: Is it not true that at this time there are too many advertisers competing for prime time, and if this bill is passed and they cannot get prime time their options are going to be reduced?

Mr. Tomlinson: Drastically, yes.

The Chairman: Are there any other questions?

Senator Smith (Colchester): I am just wondering whether it makes any difference to these gentlemen, and the people they represent, financially, or from the profit aspect, whether they buy time for their advertisers in Canada or time on U.S. stations.

Mr. Harrison: It makes no difference.

The Chairman: If there are no further questions, I will thank the witnesses for an excellent presentation.

The committee continued *in camera*.

The Chairman: Last Thursday morning there was an interchange between two members of the committee, and it was quite heated, the two members being Senator Walker and Senator Austin.

Senator Beaubien: Mr. Chairman, could I just make a suggestion? Any unpleasantness that takes place between us in the Senate degrades all of us to a certain extent. I

think we should all realize that these things are sometimes said in haste, and they are things that should perhaps never be said. These are two honourable senators. Perhaps they could both say, "We will leave it up to the chairman to take out any words he thinks should be deleted." They do not affect anything that had to do with the matter under discussion. The chairman has a tremendous amount of experience and we trust him to take out the words that should not be there. After all, we all get "up" sometimes, get mad and say things we should not say. The chairman is there; he can take it out, and let us forget it.

Hon. Senators: Hear, hear!

Senator Walker: I withdraw whatever you, Mr. Chairman, feel should be deleted from the record.

Senator Austin: I withdraw whatever you, Mr. Chairman, think should be deleted from the record.

I should like to add that I entirely concur with Senator Beaubien's outline of what I believe should be the spirit of relationships here.

Hon. Senators: Hear, hear!

The Chairman: Will the committee approve of the course of action and responsibility the chairman took in dealing with the *Hansard* report on that day?

Hon. Senators: Agreed.

The committee adjourned.



Government
Publications

FIRST SESSION—THIRTIETH PARLIAMENT
1974-75-76

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
**BANKING, TRADE AND
COMMERCE**

The Honourable SALTER A. HAYDEN, *Chairman*

Issue No. 88

WEDNESDAY, MAY 26, 1976

Fourth Proceedings on Bill C-58 intitled:

“An Act to amend the Income Tax Act”

(Witnesses—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Austin	Lafond
Barrow	Laird
Beaubien	Lang
Buckwold	Macnaughton
Connolly	Manning
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
*Flynn	Smith
Haig	(Colchester)
Hayden	Sullivan
Hays	Walker—(20)

Ex officio members
(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, April 6, 1976.

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Davey, seconded by the Honourable Senator Lang, for the second reading of the Bill C-58, intituled: "An Act to amend the Income Tax Act".

After debate, and—

The question being put on the motion,

The Senate divided and the names being called they were taken down as follows:—

YEAS

The Honourable Senators

Argue	Lafond
Austin	Langlois
Benidickson	Lefrançois
Bourget	Lucier
Buckwold	Macnaughton
Cameron	McDonald
Carter	McElman
Cottreau	McGrand
Croll	Michaud
Davey	Molgat
Denis	Neiman
Duggan	Norrie
Eudes	Petten
Forsey	Riel
Fournier (de Lanaudière)	Riley
Fournier (Restigouche- Gloucester)	Robichaud
Giguère	Rowe
Godfrey	Smith (Queens-Shelburne)
Goldenberg	Sparrow
Graham	van Roggen—40.

NAYS

The Honourable Senators

Choquette	Macdonald
Cook	McIlraith
Desruisseaux	McNamara
Flynn	Phillips—9.
Grosart	

So it was resolved in the affirmative.

The Bill was then read the second time, on division.

The Honourable Senator Davey moved, seconded by

the Honourable Senator Sparrow, that the Bill be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—

Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, May 26, 1976.

(118)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m.

SUBJECT: Bill C-58—"An Act to amend the Income Tax Act".

Present: The Honourable Senators Hayden, (*Chairman*), Austin, Beaubien, Buckwold, Cook, Flynn, Hays, Lafond, Lang, Macnaughton, Manning, McIlraith, Molson, Smith, (*Colchester*), and Walker. (15)

Present, not of the Committee: The Honourable Senators Bell, Davey and Petten. (3)

In Attendance: Mr. R. L. du Plessis, Law Clerk and Parliamentary Counsel.

WITNESSES:

Department of the Secretary of State:

The Hon. Hugh Faulkner, P.C., Minister; and

Mr. P. M. Roberts, Assistant Under-Secretary of State for Cultural Affairs.

Revenue Canada—Taxation:

Mr. H. E. Garland, Assistant Deputy Minister, Legislation.

The Committee proceeded directly to the examination of the witnesses with respect to its continuing study of the said Bill.

At 11:45 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, May 26, 1976

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-58, to amend the Income Tax Act, met this day at 9.30 a.m. to give consideration to the bill.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, we are continuing our consideration of Bill C-58. We had not finished with the minister the other day so we have him back here this morning. He made his opening statement last day, so questions are in order now.

Senator Cook, I believe you have some questions.

Senator Cook: Yes, Mr. Chairman. I have a short line of questions I should like to ask the minister.

Mr. Minister, subparagraph (F) of section 19 of the Income Tax Act reads, in part, that a Canadian issue does not include an issue

(F) the contents of which, excluding advertisements, are substantially the same as the contents of an issue . . . printed, edited or published outside Canada.

If Bill C-58 passes Parliament, will this subparagraph be amended in any way?

The Honourable Hugh Faulkner, Secretary of State of Canada: No, it will not be, senator. Bill C-58, of course, just eliminates sections 2 and 4.

So to answer your question, it will not be affected.

Senator Cook: On May 6 and 7, 1975, did not *Time Canada* have meetings with the highest level of officials of the Department of National Revenue?

Hon. Mr. Faulkner: Mr. Garland is here. He would have to answer that question.

Senator Walker: The answer is yes.

Hon. Mr. Faulkner: I did not meet with *Time*.

Senator Cook: No, I did not ask you that. I asked: Did not *Time Canada* have meetings at the highest level with the officials of the Department of National Revenue?

Hon. Mr. Faulkner: Yes, with National Revenue.

Senator Cook: In the course of these meetings, was not a memo prepared by the departmental officials which included or referred to an interpretation of the words "substantially the same"?

Hon. Mr. Faulkner: I am afraid you will have to ask that of the officials. I was not party to that and I was not involved in that, but Mr. Garland, I think, might be prepared to answer that question. That is why I invited him here, if that is agreeable, Mr. Chairman.

The Chairman: Oh, yes.

Mr. H. E. Garland (*Assistant Deputy Minister, Legislation, Taxation Branch, Department of National Revenue*): Yes, Mr. Chairman. We did have meetings in May with officials of *Time Canada* to review the request for an advance ruling on a mock-up magazine which they had prepared.

Senator Cook: Thank you. To repeat, in the course of these meetings was not a memo prepared by the departmental officials which included or referred to an interpretation of the words "substantially the same"?

Mr. Garland: The whole meeting with *Time* and the ruling revolved upon the interpretation of "substantially the same", and at that time we had a variety of memos prepared, including opinions from counsel and others. Yes, there were memos prepared at that time, sir.

Senator Cook: I would like to put on record this definition or reference, shall I say, which occurred in the memo:

The requirement is that at least half the contents be new, fresh, original material which has not appeared in any periodical outside Canada.

That statement appeared in the memo?

Mr. Garland: That statement appeared in one memo of many, yes.

Senator Cook: Is it not a fact that "substantial" has been interpreted from time to time by the courts?

Mr. Garland: Yes.

Senator Cook: I was asking that of the minister, but I do not mind who answers. I just want it on the record,

Now, Mr. Minister, on May 8 you addressed the House of commons and said in part:

—there is no intention of introducing, in connection with the proposed amendments,—a new formula for measuring how substantially a magazine published in Canada must be different from another published abroad—

Those are your words.

Senator Walker: What page is that?

Senator Macnaughton: What is the reference?

Senator Cook: It is in *Hansard* of the House of Commons, but I don't know the reference. However, when it became apparent that *Time Canada* could continue to meet the requirements of subparagraph (F), as enacted by Parliament, did it not become necessary to take further steps?

Hon. Mr. Faulkner: The answer to that question, senator, is that the issue, from my point of view as Secretary of

State, was really the interpretation one might give those words that would reflect a reasonable publishing policy. That is my perspective. The Minister of National Revenue has to interpret it from a different point of view, and you have cross-examined him on that; but I was never persuaded that if you interpreted "not substantially the same" as 50 per cent, you would do anything other than produce a hybrid magazine industry in Canada, and it would not be any longer a question of *Time*, it would be a question of a whole range of magazines which, in my judgment, faced with this, would probably be led into a situation where they had a contract for 50 per cent of their material outside the country.

Senator Cook: Mr. Minister, my questions are directed to the Income Tax Act. If you feel that you would not like to answer them, perhaps Mr. Garland will. I will repeat the question.

When it became clear that *Time Canada* could continue to meet the requirements of subparagraph (F), as enacted by Parliament, did it not become necessary to take further steps?

Hon. Mr. Faulkner: That would be a policy decision. I am saying, senator, that from my point of view—and you would have to ask the Minister of National Revenue about his point of view—the original indication by the Minister of National Revenue, the Honourable Ron Basford, back in March, when he said that a threshold of 80 per cent would put a magazine, beyond question, in a category of "not substantially the same", was a position that I supported, and there was a grey area introduced in March, saying that it could go down to 60 per cent.

Senator Walker: You are speaking of March, 1975?

Hon. Mr. Faulkner: Yes. As I remember the arguments at that time, in the House of Commons, at least, they were to the effect of, "Well, that leaves a grey area. If you are going to give it a percentage definition,"—which we were asked to do—"give it a firm threshold definition," and that was set at 80 per cent.

Senator Cook: I leave the question to speak for itself at the moment. Perhaps we might have to have Mr. Cullen back on this point.

My next question is: Did it not become necessary to refuse the request of *Time* for a judicial interpretation of the words "substantially the same"?

Hon. Mr. Faulkner: I am not aware of that.

Mr. Garland: No, there was no refusal of an interpretation. There was no official interpretation arrived at until October, and that was announced by the Minister of National Revenue.

Senator Cook: I do not think, sir, you quite got the question. I will rephrase it.

Was the request of *Time* for a judicial interpretation of the words "substantially the same" refused?

Mr. Garland: *Time* requested that the interpretation of the word "substantially" be referred to the Federal Court, under section 173 of the Income Tax Act, for determination. Our minister demurred, in that he did not feel that that was an appropriate reference to the court. The section has a requirement that both parties must agree on the reference, and he did not wish to agree on that reference.

Senator Cook: Would the word "demur", in this context, be the same as "refused"?

Mr. Garland: I would say it would probably be the same, yes, sir.

Senator Cook: Thank you. Did it not become necessary to ignore, or brush aside, a suggested ruling of the departmental officials?

Hon. Mr. Faulkner: Well, here again, I can speak for myself, senator, but you may want to speak to the Minister of National Revenue on this as well. From my point of view, the original public interpretation given by the Minister of National Revenue in March, of 80 per cent as a firm threshold, was one that made eminent sense to me in publishing terms. The degree to which there was a dispute or discussion with *Time*, as to whether we should stick at that level or re-interpret it, is something I cannot comment on, but I know that in my own mind, looking at the matter from the publishing point of view, I have always felt that even 80 per cent gives a magazine a certain advantage. It gives an advantage of 20 per cent, because that material is obviously much less expensive to generate than if it is done *ab initio*. So I have always felt that 80 per cent, from a publishing point of view, was a firm and fair threshold, if we were to draw a distinction between Canadian magazines that were to benefit from this tax advantage, and other magazines. It has never been a problem in my mind, and I was not aware of any problem elsewhere, either.

Senator Cook: If it was possible for *Time* to continue to comply with the requirements of subparagraph (F), as it was worded by Parliament, did it not become necessary for the minister to fix a formula that would make it impossible for *Time* to comply with the wording of subparagraph (F) as enacted by Parliament?

Hon. Mr. Faulkner: No. Right from the very beginning of this issue I have said, in respect to all those affected—and they are not just *Time* and *Reader's Digest*; there is a whole range of other magazines that are affected—that if they could comply with the law they would be very welcome. I was not engaged in a vendetta or witch-hunt against *Time* magazine. I am a subscriber to *Time* magazine. I continue to be a subscriber to *Time* magazine. I think it is one of the better news magazines in the world. But I had to recognize that from my point of view, with the exemptions in the law that existed prior to C-58, it had a very substantial competitive advantage over Canadian magazines. If it wanted to enjoy the benefit of the tax provisions, then it had to be on the same footing as any Canadian magazine, and that meant, quite frankly, that it had to generate its material in the same way as its Canadian competitor magazines. I can understand that *Time* would say, "Well, we would prefer to maintain the relationship we have," which makes eminent sense from their point of view.

Senator Cook: You say, "comply with the law." How did you interpret the law? What law? Subparagraph (F)?

Hon. Mr. Faulkner: Yes, subparagraph (F). Bill C-58 does not deal with that section. It was in there in 1965. It was the wisdom of Parliament at that time to accept that interpretation of what a Canadian magazine was. All I was attempting to do in Bill C-58 was to eliminate the exemptions. The effect of that would then put *Time* and *Reader's*

Digest and the rest, in a position where they would have to conform with the law as passed in 1965.

Senator Cook: And which has not been changed by Bill C-58.

Hon. Mr. Faulkner: It has not been changed by C-58, no.

Senator Cook: I would like, Mr. Chairman, to refer to an Exchequer Court case, entitled, *Manning Timber Product Limited v. Minister of National Revenue*, which was decided in 1951. The judge concluded his judgment with these words:

I have given appellant's powerful argument my best consideration but I am simply unable to see that there is any context here which would enable me to construe "substantial" as "majority". I am fortified in this view by the following passage from the speech of Viscount Simon in *Palser v. Grinling*—

Mr. Chairman, this is from 1 *All England Reports*, 1948. I will not delay the committee by reading the full passage from Viscount Simon's speech, but only the material part, which is as follows:

If the judgment of the Court of Appeal in *Palser's* case were to be understood as fixing percentages as legal measure, that would be going beyond the powers of the judiciary. To say that everything over 20 per cent of the whole rent should be regarded as a substantial portion of that rent would be to play the part of a legislator. If parliament thinks fit to amend the Statute by fixing percentages, Parliament will do so. Aristotle long ago pointed out that the degree of precision that is attainable depends on the subject matter. There is no reason for this Court to differ from the conclusion reached in these two cases that the portion was not substantial, but this conclusion is justified by the view taken on the facts, not by laying down percentages of general application.

Mr. Minister, does Parliament, by Bill C-58, amend the Income Tax Act by fixing any percentages for subparagraph (F)?

Hon. Mr. Faulkner: No.

Senator Cook: Therefore the 80 per cent formula set by the minister is not a formula set by Parliament.

Hon. Mr. Faulkner: It is an interpretation of a regulation. I take it that is something that happens with some degree of regularity in the Department of National Revenue.

Senator Cook: But it is not a formula set by Parliament.

Hon. Mr. Faulkner: No. It is an interpretation of a formula set by Parliament.

Senator Cook: Is it a formula fixed by any court which has interpreted the word "substantially"?

Hon. Mr. Faulkner: I am not aware of that.

Senator Cook: What is the answer? Yes or no?

Hon. Mr. Faulkner: No.

Senator Cook: Is it a formula suggested by the permanent head of the Department of National Revenue, after two days' discussion with *Time Canada*?

Hon. Mr. Faulkner: Could you repeat that, senator?

Senator Cook: Is it a formula suggested by the permanent head of the Department of National Revenue, after two days' discussion with *Time Canada*?

Hon. Mr. Faulkner: No, but I do not want to get too deeply involved in the Department of National Revenue, and that is why I am a little reticent; but I would think the answer is no.

Senator Cook: Is it a formula that comes within the clear, ordinary meaning of the words "used by Parliament" in subparagraph (F)?

Hon. Mr. Faulkner: That has obviously been the subject of some dispute. My own view I am not a lawyer and, therefore, I do not think that my views on this matter are of great benefit or enlightenment to the committee, but I would think that the case could be strongly argued in court. But I think a counter-case could be put. I take it that that is what the courts are generally faced with.

Senator Cook: Is it a formula that has care for or any regard for the legal rights of taxpayers following the word used in subparagraph (F)?

Hon. Mr. Faulkner: Well, I take it that the answer is probably "yes" from the point of view of National Revenue. Again, I do not want to speak for them. The way I viewed it is from the point of view of publishing which is my responsibility and from that point of view and in terms of publishing objectives it makes eminent good sense and that is why I think that you have found, up to now, Mr. Chairman, that most of the people in the publishing industry from a wide variety of sources support it as a concept.

Senator Cook: Unfortunately we are dealing with the Income Tax Act—at least, I am—and not publishing. Would you please supply the committee with a copy of the document which stipulates and brings into force the 80 per cent formula?

Mr. Garland: There was a press release issued by our minister which we can provide you with.

Senator Cook: Could we have a copy of the press release?

Hon. Mr. Faulkner: Yes.

Senator Molson: There must be something more fundamental than a press release. We get 30 million of those a year and they don't all have serious import. They are just words. Is there not something more substantial as the background for the press release in this case?

Mr. Garland: It was announced in the house, so we could get the *Hansard* for you.

Senator Flynn: Is it a matter of regulation?

Mr. Garland: No, senator.

Senator Flynn: You mean that despite what you say, you could say something else tomorrow without making a new regulation?

Senator Cook: That is why I thought it would be interesting to get the document.

Senator Flynn: In other words, you could go down to 60 per cent tomorrow with just another press release?

Senator Cook: Is it government policy that the new 80 per cent formula is to be of general application to all

income tax provisions turning on the word "substantial" or is it to apply to magazines only?

Hon. Mr. Faulkner: I think that is something you would have to get Mr. Cullen to speak to.

Senator Cook: I agree, but I would like my questions to be on the record.

Senator Macnaughton: There is a witness here.

Hon. Mr. Faulkner: But it would seem to me to be a policy question.

Mr. Garland: I can give an answer if you like, Mr. Chairman. That word "substantially", on the advice of our Justice advisers, must be interpreted in the light of the whole context of the section and the words with which it is used. Therefore the interpretation given under section 19 that you are now speaking of, of the words, "substantial" and "substantially", does not have the general application of that same word in other places in the rest of the statute.

Senator Cook: But surely, Mr. Garland, you are not telling us that the word "substantial" means one thing in one place and has another meaning in another?

Mr. Garland: Yes, senator. That is the way the courts have interpreted it. You have referred to a House of Lords case where the interpretation was that 20 per cent was felt to be "substantial". I refer you, senator, to the federal court case involving J. K. Publications—it is *obiter dictum*, so perhaps you should not refer there—where there is mention of a different percentage.

Senator Cook: In the Exchequer Court case that I referred to they said they would not construe the word "substantial" as a majority.

Mr. Garland: It depends on the whole context of the sentence.

Senator Cook: All right, then I would ask you this: Can you quote to me any court case which interprets the word "substantial" as being 80 per cent?

The Chairman: Senator Cook, I have a copy of the text of the press release made on October 23, 1975. It was read into the proceedings of the committee in the House of Commons. Perhaps the committee would like to hear it at this time. It simply says:

The government's policy requires that more than 80 per cent of the contents of a Canadian periodical must be material which has not appeared in any current or prior issues of foreign publications with which the Canadian periodical may have had any type of continuing arrangement for access to material.

Senator Cook: Very informative.

The Chairman: Yes.

Senator Cook: Just as it was issued by the Minister of National Revenue.

The Chairman: By the way, Mr. Reporter, after my answer "Yes", you will put an exclamation mark.

Senator Cook: Is there not something very, very wrong when the administration—not Parliament—but the administrations usurps the power to manipulate the working of the Income Tax Act for its own policy purposes?

Hon. Mr. Faulkner: Well, that is putting a very particular construction on the process that is under discussion, senator. The last time I was before this committee I put on the record the history of the 80 per cent figure. The figure goes back to March, 1975 when the Minister of National Revenue at that time said that the 80 per cent figure was a firm threshold. At that time the Honourable Ron Basford, when asked a question about what "not substantially the same" means, said that above 80 per cent there would be no questions asked because it would obviously be substantially different. The public record around that figure has been fairly consistent. Now obviously one might argue about that, but certainly the public record has been consistent and the rationale behind it has been consistent.

Senator Cook: The public record?

Hon. Mr. Faulkner: The public statements of the minister have been consistent to the effect that 80 per cent was a firm threshold. There was a question in the very beginning, and this is going back to March, 1975, as to the possibility of an interpretation below 80 per cent, and the general argument, if I remember it correctly, at that time, was that that left an area open to rather arbitrary judgment, and therefore the consensus was that the Minister of National Revenue should give a firm threshold which he did and stated it was 80 per cent.

Senator Cook: I begin to wonder whether the minister looked at the dictionary when he talked about "substantially" being 80 per cent.

The Chairman: Do you have a reference to that statement in the House of Commons *Hansard*?

Hon. Mr. Faulkner: I would have to check that for you.

Senator Cook: The last question I have is one that concerns me very much, and it is this: If the minister does in fact administer acts so as to depart from the everyday, normal meaning and also the judicial interpretation given to the words used by Parliament, then must not the ordinary Canadian citizen have to ask himself the disturbing question, "Who may be the next one to suffer from this disregard for the established rule of law?"

Hon. Mr. Faulkner: Well, senator we obviously disagree about the interpretation of the process. You are putting a very particular construction on what happened and, obviously, I do not share that view.

Senator Flynn: Would you explain as to why the 80 per cent did become part of the legislation?

Hon. Mr. Faulkner: I believe my colleague gave an explanation of that when he appeared before this committee. My own view is that it is a clause in the statute which requires an interpretation. This exercise in interpretation is one that the Department of National Revenue carries out very regularly. It is part of its mandate and it seems to me a rather legitimate exercise of its responsibilities. I would say there would be a compelling case if this were a single example of interpretation of the Income Tax Act. However, I have made inquiries of the Department of National Revenue as to how often in a given year it is required to interpret meanings for tax payers and I am told that it is in the thousands. Therefore, to cite this one example and say it is arbitrary and a distortion of the law —

Senator Flynn: I am not saying that.

Hon. Mr. Faulkner: I know you are not, senator. Maybe all this should be written in the law, but that would be just another option. The option we are pursuing seems to me to make eminent sense and to be in accordance with the practices of this country.

Senator Flynn: But the minister could change it tomorrow.

Hon. Mr. Faulkner: I suppose theoretically he could, but I doubt if he would.

The Chairman: Mr. Minister, I understood you to say that in arriving at the "at least 80 per cent substantially" there was no thought of thereby shutting out *Time* and *Reader's Digest* from operating in the Canadian market.

Hon. Mr. Faulkner: That is right. When I was thinking through the implications of the interpretation, it was really from the point of view of publishing policy. The question I had to ask myself, whatever relevance it had on the ultimate interpretation, is another question, but I had to ask myself at what level should a threshold be established in order to make the competitive situation between Canadian magazines and these other magazines fair and reasonable? It seemed to me that we really arrive at 80 per cent. I used to engage in the other place in arguments with my very friendly critic, the member for Fundy-Royal about: "Well, why not 50 per cent, then?" The answer seems to me to be rather straightforward; at 50 per cent I believe we would really be inviting magazines to become hybrid magazines. That is from my point of view as a policy.

The Chairman: Mr. Minister, on May 8, 1975 you spoke in the House of Commons. It was a lengthy speech, and during the course of it you said the following:

Second, we do not want the continuance of an arrangement whereby two very large, foreign-owned periodicals—one with a weekly circulation of 1.4 million—together drew of \$19 million of the \$39 million of advertising revenue earned in 1974 by the 13 largest consumer magazines in Canada.

Later on in the same speech you said:

Second, we want the diversion of a proportion of the advertising revenue now earned by *Time* and *Reader's Digest* to Canadian-owned consumer magazines.

Now, isn't the fair conclusion to be drawn from that that the only way you could achieve that would be by passing this bill and applying an 80 per cent interpretation?

Hon. Mr. Faulkner: Well, you will remember that the 80 per cent interpretation was already part of the public record, predating the May speeches by approximately two months. I believe I gave evidence to this effect the last time I appeared before the committee. It appeared to me to be clear that neither *Time* nor *Reader's Digest* would conform to the law at that point in time. They did not seem interested in doing it because, particularly in the case of *Reader's Digest*, it was engaged in a major campaign to have the bill defeated. So they were not in the process of saying: "We think we can adjust, but we think at the same time that you should stop the bill". They made it perfectly clear that they were going to try to resist the bill, particularly *Reader's Digest*. They were totally above-board with me; I have no complaints. They even showed me things they were going to include in their various issues to solicit mail. However, their purpose at that time was to stop the bill because they thought it was legislation they did not

like, so it was really in that context that I made that statement. However, I have said countless times when asked the direct question: "Was it your intention to get rid of *Time* and *Reader's Digest*?" that it was not so. The intention was always that if they could conform to the law there would be no problem.

The Chairman: How did you propose the diversion of a proportion of the advertising revenue now earned by *Time* and *Reader's Digest* if *Time* and *Reader's Digest* were still able to qualify and operate in Canada?

Hon. Mr. Faulkner: Well, if *Time* and *Reader's Digest* had totally conformed to the law there would be far less diversion, if any diversion at all. However, that statement was made after some pretty conclusive evidence, I thought at the time, such as letters from *Time* to which I made reference the last time I was here suggesting that they were not going to conform to the law, which would mean that there would be a certain diversion.

The Chairman: I should point out to you, just as a matter of correction, that the figures you used, of \$19 million and \$39 million, are gross advertising revenue figures, and, of course, to arrive at the net you would have to deduct all the direct and indirect expenses from that income. Secondly, the \$19 million is too large a figure to attribute to *Time* and *Reader's Digest*. We have figures from the advertising association which show that for 1974 the gross advertising revenue of *Time* was \$10.8 million and that of *Reader's Digest* was approximately \$6.5 million, with *Sélection* being \$1,427,000. The addition of those figures gives approximately \$15 million gross revenue. After the deduction of direct expenses, corporate taxation, et cetera, that figure might be reduced to half that amount. The \$39 million is a correct figure for 1974. That was the gross advertising revenue. However, the greatest gross advertising income was enjoyed by *Maclean's* which is a Canadian magazine. Of the \$39 million, *Maclean's* had roughly \$5.7 million. Then, if we add *Chatelaine*, *English* and *French*, amounting to another \$8 million, they receive substantially the greatest amount of the gross advertising revenue earned by magazines in Canada.

Hon. Mr. Faulkner: I do not wish to engage in a dispute with respect to the figures, senator. However, is the point not that \$14 million to \$15 million worth of revenue accrues to two magazines that did not conform to the law?

The Chairman: At that time they did.

Hon. Mr. Faulkner: Yes, except by way of exemption.

The Chairman: Was your conclusion based on the fact that you were dealing with the situation after bill C-58 came into force and *Time* and *Reader's Digest* just could not qualify?

Hon. Mr. Faulkner: Yes.

The Chairman: That was your approach. Then, you still, notwithstanding that, tell me that there was no intention to shut out either magazine if they could qualify?

Hon. Mr. Faulkner: No, because obviously, senator, what has happened is that one of them has qualified and one of them has not.

The Chairman: One has indicated that it proposes to conform.

Hon. Mr. Faulkner: That is true, yes.

Senator Manning: Mr. Chairman, I wonder if the minister would enlarge on this aspect of the question: If the concern of the government was that a tax advantage was going to foreign-owned publications operating in Canada, why did it not approach the problem from the standpoint of controlling the ownership criteria, rather than controlling the content? For example, I would assume that normally we would regard as a Canadian enterprise a company that was incorporated under Canadian law that had a majority of ownership in the hands of Canadian citizens and had Canadian management. If you have those three things, with the majority of the ownership in the hands of Canadians in the first place, I wonder, if that rule is applied, if *Time* or *Reader's Digest*, the parent company in the United States, would any longer be interested in providing at special rates material for those publications in Canada, when any financial advantage was going to flow to the majority of shareholders, who would be Canadians, and not to the parent company. If the normal 50 per cent ownership rule was considered inadequate, why would the government not say, "Well, we will make the ownership 80 per cent Canadian," instead of monkeying around with the content of the magazine, which interjects another subject altogether, which, in my submission, is no business of the income tax department or the government itself, for that matter?

Was any consideration given to controlling this matter by saying it has to meet these three criteria: be incorporated under Canadian law, have Canadian management, and the ownership must be 50 per cent, 60 per cent, or 80 per cent Canadian ownership and forget all about the content, because monkeying around with the content is certainly adverse to the interest of the Canadian reader? It seems to be a most undesirable way of getting at an objective which can best be obtained by dealing with the criteria for ownership.

Hon. Mr. Faulkner: The provision that goes beyond the ownership was a provision in the law of 1965, and when I was reviewing the law I tried to make my changes to it as minimal as possible. I did not try to deal with the definition of what a Canadian periodical was. That was agreed to by Parliament in 1965. It was then that the additional requirements were made beyond ownership to deal with licensing and with "not substantially the same".

Frankly I did not approach it that way simply because I felt the law was basically sound as conceived by Parliament in 1965. The only shortcoming was that it created an exemption which vitiated the intent of the law. So all I tried to do was to get at that one exemption. That is the context in which I approached it.

If I were to look at the question theoretically, since you have raised it, I would really have doubts whether that would accomplish what we are after, or would deal with the problem we are trying to get at.

If the magazine—say *Time*—were simply Canadian owned, there would still be this problem of their being able to purchase material at a very much lower rate than could be generated by a Canadian competitor.

Senator Manning: May I interject here? What is wrong with that, if the financial benefit accrues to Canadian shareholders are not to the parent company in the United States? From the content standpoint, surely the more diversified the content the better from the standpoint of Canadian readers generally? This bill is catering, perhaps

with some justification, to a small group of publishers who would not be publishers in Canada.

My point is, you can do away with any advantage to the parent company by making a Canadian incorporate company no longer subsidiary in the true sense of the word, because the vast majority of stock would be held by Canadians. If there were a financial advantage in that publication being able to have access to the material which the former parent company had in the United States, the financial advantage would flow to Canadian shareholders. What is wrong with that?

Hon. Mr. Faulkner: There is no question about that, senator; but I am looking at it also from a publishing point of view, and that is where the problem lies. If I accept the premise of the O'Leary report—which is really the basis of all this—that the way to support Canadian periodicals is through advertising—that is the fundamental proposition behind this whole thing: not through the Canada Council, not through government grants, not through a variety of other mechanisms we could devise, but through advertising, because that provided revenue on the one hand without political control or editorial interference on the other. If that is the case, and we decided to adopt the O'Leary method, mainly be encouraging Canadian businessmen to invest in those magazines that are Canadian in substance, then the ownership thing does not provide me with that.

Senator Manning: I do not want to repeat myself, but it seems to me that if we accept what I feel is a very sound premise, that we do not intend to give tax advantages to foreign-owned corporations in publishing business—if we start with that premise, then define the Canadian publication in the same way as any other Canadian enterprise—as I say, it is incorporated under Canadian law, it is Canadian managed, and it has a majority of Canadian ownership—surely that gives scope to anyone who wants to get into the publishing business in Canada to get in under that structure? Why should you wipe out all of that just so you can have a small handful of wholly-owned Canadian companies with no association with any publishing firm outside of Canada?

Hon. Mr. Faulkner: I do not disagree with that. The problem which exists in this country, and in some other countries, is the possibility of the split run. That really is the serious problem.

Senator Manning: What is wrong with it? That is my point.

Hon. Mr. Faulkner: Well, obviously there is nothing wrong with it, because if we take a look at the reading habits of Canadians, they are overwhelmingly involved in the foreign product. I am not disputing that.

Senator Manning: But that is their choice.

Hon. Mr. Faulkner: Of course. I do not dispute it. I am a subscriber to *Encounter*, the *National Geographic*, *Time*, and a range of them, and I will continue to be. On the other hand, I have a responsibility, as Secretary of State, to try to encourage a Canadian equivalent, if possible. Am I going to do that through the Canada Council, or through government advertising? What are the available methods? I go back to O'Leary who, I think, enunciated a pretty sound principle that there should be, within the tax structure, an incentive so that advertising revenues by Canadian business supported a Canadian magazine.

Senator Manning: I accept all of that. The only point where I disagree is that my claim is that a Canadian magazine should be interpreted as a magazine whose company is incorporated in Canada and has a substantial majority of Canadian shareholders. So if there is a financial advantage, if they can publish cheaply, if they could have a bigger circulation by reason of having access to some material in the United States or elsewhere outside Canada, then the cultural advantage would flow to their readers, because you would have a more diversified content than a wholly Canadian one, and the financial advantage would flow to Canadians because they would be the vast majority of shareholders. That seems to me to be the ideal situation.

Hon. Mr. Faulkner: My point of disagreement would be that the evidence I have indicates that the foreign magazine, as a cultural influence, is very much a reality in Canadian life. So there is nothing we have to do to encourage an improvement over foreign magazines' newsstand sale. They are virtually 90 per cent of newsstand sales in this country.

The problem with limiting the policy of ownership is that you do not deal with the likely conclusion of that limitation, namely, that the Canadian owners would simply say, "Why employ reporters in Canada? Why spend all that money developing this material ourselves? Why not just enter a contractual arrangement with some foreign equivalent, whether it be *Time* or the *Economist*, bring their stuff over here, print it here, and take away the advertising revenue?"

That is the problem I have to get at, because if I do not get at that problem, it seems to me that the economic logic of your approach would be for more and more of that type of thing to happen, because the costs of developing it here are infinitely greater than the cost of buying it amortized against a foreign market. They are bound to be. Anyone who is going into publishing to make some money. I am convinced that 100 per cent of them are in the business for that reason. They may have other interests in publishing, in Canadian works of art and things of that kind, but basically they are businessmen. If they are going to go into this business, they will go into it to make a buck, and if they can make a greater buck by buying the stuff second-hand than by carrying it in Canada, they will do so. You would do it, I would do it, any intelligent businessman would do it. It is that phenomenon that we have to get at.

Senator Manning: I have two comments in response to that. In the first place, I think it would be doubtful if American-owned publications would be over-enthusiastic about selling, even at cut rates, their content to Canadian publications if Canadian ownership was up in the range of, say, 75 per cent or 80 per cent. There would be very little advantage in that. They would only have a small minority position in the Canadian company, anyway, so any advantage occurring from selling to that company would probably be minimal.

Secondly, if the government thinks it is going to alter Canadian culture, Canadian tastes, by fostering the interests of a small group of Canadian publishers, it is entirely mistaken. Such a move, given the interrelated world of today, is pure nonsense. It would not have one one-hundredth of 1 per cent impact on the culture or reading of the Canadian people. Canadians are going to buy foreign publications in the future as they have in the past. The only thing that would be accomplished by such a step would be to reduce the Canadian publishing industry to very narrow

confines in that Canadian publishing companies would have to stay entirely in Canada or set up a Canadian staff and go out and duplicate what has been done outside of Canada by others. The practical advantage of that is not one-half of 1 per cent.

Hon. Mr. Faulkner: I might say, I respect your point of view on that, senator. You have seen much more of this country than I and have a much longer history of public service than I have. However, what you have just enunciated is a discouraging concept, from my point of view as Secretary of State. If in fact Canadian cultural activity is restricted by definition to one-half of 1 per cent of our lives, it raises some pretty fundamental questions about this country. I tried to address that problem in my own way in Winnipeg. It may be that I am a voice crying in the wilderness. I do not know. I do not happen to think so.

You are right in saying that that is what we are trying to do, but we are not doing so by curtailing the American or British product; rather by encouraging the Canadian product. I agree totally and with profound conviction with the O'Leary Report, that unless we can develop that line of communication amongst ourselves, unless we can become more aware of what is going on in this country—what our economic policy is, what our energy policy is, what our cultural policy is—then we will become simply a peripheral cultural activity, a barnacle, if you like, on the ship of state to the south of us.

That is what the Symons report is all about. Tom Symons comes from a totally different political party than I do. He is an old friend, but with a different perspective. However, his report about the state of Canadian studies is a *cri de conscience*. A great many of us today are looking at this problem. You may be proven historically right, senator, but you will have to concede to me the right to try to change the situation.

Senator Manning: Certainly.

Senator Molson: Mr. Minister, I may be wrong, but the one thing you have not said is whether, underlying this philosophy and policy, is the fact that you are trying to avoid publication material the origin of which is unclear. In other words, if we have a so-called Canadian-owned publication, and if it can import its material as *Time* has been doing, the ordinary person reading that magazine is going to assume that he is looking at a Canadian point of view, while in fact he will be reading the same point of view as would be contained in the American edition of the same magazine. You have not said so, Mr. Minister, but I am wondering whether this is part of the background of this whole problem with which we are dealing.

Hon. Mr. Faulkner: It is certainly part of the background, senator, but the rationale for the bill is really based on commercial-economic grounds. The other part of that problem, of course, is the dumping problem, if you like. There is certainly that side of it.

In preparation for this hearing, I went back to a 1973 edition of the *Canadian Geographical Journal* and compared it to the edition of April 1976. It is a totally different magazine today. I subscribe to both the *National Geographic* and the *Canadian Geographical Journal*, and while the *Canadian Geographical Journal* is still not the *National Geographic* it is a totally different magazine today from what it was in 1973.

Senator Cook: It is now a bi-monthly publication, is it not?

Hon. Mr. Faulkner: Yes. It is thicker and better, and to determine why, you simply have to compare the advertising in 1973 with the advertising today. That is the reason behind its improvement. Also, if you read some of the articles, you will realize that they do deal with the Canadian perspective.

Senator Cook: That is not an altogether fair comparison because now they publish two issues in one.

Senator Walker: But it got there, didn't it, without Bill C-58?

Hon. Mr. Faulkner: You would have to ask the publishers, senator. I am simply saying that it is stronger today than it was last year, and I am prepared to say that some measure of that is due to Bill C-58.

Senator Walker: In anticipation of it?

Hon. Mr. Faulkner: Yes. I think Senator Molson's point is a subtle and important one. I would not like to say that it was central to the consideration, but it certainly was a part of it.

Senator Molson: It was one of the factors involved.

Senator Flynn: Would you not agree, Mr. Minister, that practically all Canadian magazines have improved their positions over the years, with such improvement having little if anything to do with the 1965 legislation or the bill which is before us today?

Hon. Mr. Faulkner: Senator Flynn, we are old friends. You do not expect me to agree with that, do you?

Senator Flynn: As far as I can determine, most Canadian magazines have improved over the years.

Hon. Mr. Faulkner: I can give you a personal experience, if you wish. During my first two years as Secretary of State I had visits from representatives of *Saturday Night* looking for some form of financial assistance. Its list of subscribers was low and it was suffering from a cash flow problem, as well as a whole range of other economic problems. Each year, it was provided with an ad hoc grant, the main reason for which was that it had a distinguished history in Canada and no one wanted to see it go under.

Its publisher appeared before your committee in connection with this bill. You have seen the magazine as it is today. You know what its financial prospects are. You know that in the month of June, for the first time in its history, it will probably be in the black. You will have to ask its publisher whether its improved position is due to Bill C-58.

Senator Flynn: We did ask him.

Hon. Mr. Faulkner: And he said it had nothing to do with Bill C-58?

Senator Davey: He supported the bill very strongly.

Senator Flynn: Of course he supported the bill. In anticipation, he said he might get an additional \$150,000 in advertising revenues, but he does not credit the 1965 legislation for his having been able to make a come back.

Hon. Mr. Faulkner: Not the 1965 legislation, but a combination of that and Bill C-58.

Senator Walker: He did not say that. That is pure conjecture.

A further point is that *Saturday Night*, with the aid of government grants, of course, has reached its present pre-eminence without the help of Bill C-58, and the same applies to the *Canadian Geographical Journal*, which you mentioned.

Is it not a fact that every American industry that comes into Canada as a subsidiary has certain advantages? They have the home base advantage, don't they?

Hon. Mr. Faulkner: Yes.

Senator Walker: Do you have in mind to change the base of that, thereby making it impossible for them to operate in the way they do at the present time because they are interfering with Canadian growth of similar industries?

Hon. Mr. Faulkner: No, senator. What we are trying to do is simply equalize it, not interfere with it. If you are talking specifically about the cultural industries—

Senator Walker: I am talking about industry generally. Forty per cent of Canadian industry is owned by Americans, isn't it? In fact, that is a low percentage, isn't it? It is much higher than that.

Hon. Mr. Faulkner: In certain industries, it is a lot higher than that, yes.

Senator Walker: In manufacturing, for instance, it is much higher. Do you intend to take any steps to keep those industries in their place and to keep them from taking advantage of having a great home base, a great production, and so forth, when they come to Canada?

Hon. Mr. Faulkner: Given the generality of the question, obviously the approach of the government now is to deal with that, in part, through the Foreign Investment Review Act—i.e., where there is a change of ownership, to bargain the terms of the deal to contribute what we describe as significant benefits to Canada. That, of course, deals with a whole range of employment and technology, the six criteria involved in the bill.

Senator Walker: That is bringing in new industries, isn't it, the ownership of new industries?

Hon. Mr. Faulkner: And the takeover of existing ones.

Senator Walker: Don't we come down to this, that we have no precedent for the 80 per cent, no precedent anywhere? It has never been tried, as far as we know. You gave a press release, and a very succinct one. What is the basis for that press release? Is it the courts? It is not, is it? Your press release had no bearing to any court case?

Hon. Mr. Faulkner: It is an interpretation by the Minister of National Revenue.

Senator Walker: Is it confined to the interpretation of the Minister of National Revenue?

Hon. Mr. Faulkner: No. I think he indicated that he put the interpretation to cabinet and had the endorsement of cabinet.

Senator Walker: Is that said in the press release?

Hon. Mr. Faulkner: I cannot remember. It has been so long.

Senator Walker: Is there any item in the cabinet minutes to indicate that this was approved by cabinet?

Hon. Mr. Faulkner: I think he said it in the house. I am just trying to find out where he said it.

Mr. Peter Roberts, Assistant Under-Secretary of State: In the house.

Senator Walker: He said what in the house? I can find no evidence that this is government policy that he was announcing, or that it had ever passed cabinet, and the minister here this morning has said himself that it was a minister's decision.

Hon. Mr. Faulkner: I will get that for you.

Senator Walker: Thank you very much, if you will. Until you do, I must assume that you did not have anything else except the minister's decision—the minister's decision to really execute *Time* magazine as a Canadian magazine, a Canadian entity. That is really what it amounts to. Isn't that correct?

Hon. Mr. Faulkner: Senator, I respectfully disagree with you on that.

Senator Walker: I suspected perhaps you would, but I can still see no reason for it. Therefore, we have no formula from the courts, we have no formula from Parliament; in other words, Parliament did not create this formula. It had nothing to do with the 80 per cent, did it?

Hon. Mr. Faulkner: Well, it was not before Parliament.

Senator Walker: That's fine.

Hon. Mr. Faulkner: In the formal sense.

Senator Walker: All the more reason why the answer is, "No."

Hon. Mr. Faulkner: Although it was obviously an intimate part of the final decision of Parliament, it was an issue that was debated at length and when Bill C-58 was given third reading in the House of Commons it was with almost full support from at least two major political parties, with two others demurring, if I may use that word—

Senator Walker: What was the second party? Is there another?

Hon. Mr. Faulkner: There is another one, Ralliement des Creditistes, the Social Credit party.

Senator Walker: Therefore, the courts did not decide, Parliament did not decide, and so far as we are aware there is nothing on the record that cabinet decided.

Hon. Mr. Faulkner: Yes, there was.

Senator Walker: It comes down to what a lot of us think an atrocious decision, which is an extreme act, something contrary to any concept of democracy, taken by a cabinet minister. This is my worry, and I am sure it is the worry of others; I am sure that other people are equally concerned. Now, could you get and put on the record how this press release finally arrived? Was it a decision of cabinet? Was it referred to cabinet? Was it approved by cabinet? I sat in cabinet for years enough to know that an important thing like this should have come to cabinet. My suggestion, from all I can find, is that it never did. If I am correct, don't you think it is rather outrageous that a bill such as Bill C-58 should be interpreted by a minister definitely and deliberately to get rid of the best news magazine we had in Canada?

Hon. Mr. Faulkner: Senator, there is some misunderstanding between us. It was before cabinet. There is some uncertainty in my mind about where the Minister of National Revenue stated that. I thought it was in the House of Commons. It might have been in the committee proceedings. However, it is on the public record, that he said he took this issue before cabinet and got the endorsement of cabinet, so that is not an issue. What is in issue is where he made that statement. I will find that statement and give it to the chairman so that it can be part of the evidence here.

Senator Hays: Do you have a list of the magazines that will be affected by Bill C-58?

Hon. Mr. Faulkner: Yes. I do not know if I have it with me, but I have looked at a list.

Senator Hays: Do you know how many are involved, the number?

The Chairman: What do you mean by "affected"?

Senator Hays: Affected by Bill C-58, the number of magazines.

The Chairman: Beneficially or otherwise?

Senator Hays: Otherwise.

Hon. Mr. Faulkner: I think we could get you a list. I know of several. There are some affected by the exemptions of clause 19(2), some are affected by the elimination of the exemptions under the journals of science, religion and fine arts. I would like to get you the proper list. Let me get you an accurate and comprehensive list. We will get it to you this afternoon.

Senator Hays: Do you know whether breed magazines are affected, livestock magazines?

Hon. Mr. Faulkner: I would like to give you a proper list of those. Would you like to elaborate on what you mean by "breed" magazines?

Senator Hays: Each year we buy a billion dollars' worth more agricultural products from the United States than we sell them, mostly because we cannot grow them due to geography, this being a cold, harsh country with only 110 frost-free days. We always have this balance, but we do some things rather well. For instance, we have breeds of cattle such as the Holsteins, which are the best cattle in the world.

Hon. Mr. Faulkner: I agree with that.

Senator Hays: We export to something like 62 different countries. We use foreign periodicals for all our advertising. I would suppose they would not be affected.

Hon. Mr. Faulkner: They are not affected. You can advertise in foreign periodicals provided the advertisement is directed at the foreign market.

Senator Hays: The magazines are in Canada. There is no other periodical that takes their place in Canada.

The Chairman: Their advertising is directed to a foreign market. Is that right?

Senator Hays: And to Canadians.

Senator Flynn: "Substantially the same."

Senator Hays: Would they be affected?

Hon. Mr. Faulkner: I think the ruling is that it is in the judgment of National Revenue. I take it the advertising is directed primarily at the foreign markets.

Senator Flynn: What percentage is "primarily"?

Hon. Mr. Faulkner: I am getting leary of giving those words precise meaning.

Senator Hays: Is this not a sort of precedent for some small group to say, "We can do this sort of job."? You have opened the door for 80 per cent content down the road for a magazine someone wishes to start. All they have to do is to say that the magazine is also under Bill C-58. This could be almost an arbitrary decision.

Hon. Mr. Faulkner: You refer to it as an arbitrary decision. It is an interpretation that National Revenue is required to make. The law is reasonably clear and, under the law, they are required to interpret that. As I understand it now, they interpret the advertisements placed in these magazines as being primarily directed at the foreign market, which I think is what they are. If they start becoming directed almost exclusively at the Canadian market, I take it then you are in trouble.

Senator Flynn: Almost exclusively.

Senator Buckwold: Substantially.

Hon. Mr. Faulkner: Primarily.

Senator Hays: We will get a list of these magazines that are affected?

Hon. Mr. Faulkner: Yes, I will get a list for you this afternoon.

Senator Hays: When we had the advertising agencies before the committee, they suggested that when it came to the broadcasting or television part of the bill, where it would affect them—dealing with prime time—they said the smaller stations in smaller areas that would be advertising regional products and that sort of thing, probably would not be able to cope with the financial problems they would be in; that they would probably close down because they would not be able to support the small advertisers that were making regional equipment, and so on. Would you agree with that, that it might affect that?

Hon. Mr. Faulkner: I would want to look at that very closely. I missed that argument.

Is there anyone here from Communications who would care to comment on that argument? I would have to look at it very closely, senator. I cannot remember seeing that argument.

Senator Hays: That was the last time we met, I believe.

The Chairman: Yes. I believe you developed this point with the CAB when they appeared before us.

Senator Hays: They said it would affect every small TV station in Canada because the prime time was sold, and that they would not have a large enough viewing audience to be able to sell enough material to justify their existence down the road. They said this would just automatically do away with these people.

Hon. Mr. Faulkner: I have difficulty following that. I will look at that argument.

Do you have any comments on that?

Mr. Roberts: No. I have a list here, if you wish.

Senator Cook: Mr. Chairman, I would like to clear up a little confusion that seems to exist about government policy. Mr. Cullen said to us, in our record of May 5, 1976 at page 84:6:

The interpretation of this particular clause in the Income Tax Act was one of thousands which I and my department are called on to make every year. However, because this decision was to have such a broad effect, I chose to seek the support of my government colleagues and thus give my interpretation the form of government policy.

He replied in the same way to a question of mine later on. Therefore, it is on the record.

The Chairman: Yes.

Senator Buckwold: Mr. Minister, I have indicated before that I support this bill. However, I have some concern about what I feel could develop—namely, the monopolistic domination of the news industry, especially the news magazine industry, by one publication.

The Davey Report expressed great concern that more and more the control of the newspaper industry is falling into the hands of a few. It has become fairly obvious that to get into the news magazine business in Canada is a very expensive proposition and one that, even at best, is perhaps fairly marginal. I cannot accept the fact that suddenly, or even in the reasonably near future, you are going to have very much competition for *Maclean's*. And I am not criticizing *Maclean's*. What I am suggesting could happen is—and I want your reaction to this—the complete domination of the news magazine industry by one publication which would then slant news in the direction that their editorial policy wanted to take. Is this not a matter of concern to your department?

Hon. Mr. Faulkner: I would have to admit that it is a matter of concern. I have not yet had a chance to address myself to that problem because it seems to me there is an intermediate problem and, that is,—as Senator Manning has indicated—the impact of these magazines at this point in time is still rather marginal, in terms of the reading habits of Canadians. Therefore, even if one could make a case, which I do not think one could, that *Maclean's* has a monopoly, there are too many magazines around—maybe not of the news magazine variety—with which they are competing.

Senator Buckwold: Which ones, and Canadian?

Hon. Mr. Faulkner: It is competing, of course, in the Canadian scene to a degree with the newspapers. It is competing with foreign magazines, basically.

Senator Buckwold: But foreign magazines are not giving a Canadian slant. Let us look at the Canadian news; that is what you are developing.

Senator Flynn: The same class and kind of Canadian magazine.

Senator Buckwold: The fact is that even in the U.S., with their immense population, there are relatively few news magazines, but they have an immense influence. I would suggest to you that it is much worse in Canada, considering our opinion-forming institutions, such as the CBC, CTV, a large number of controlled newspapers, and now the news magazine. As I say, looking into the future,

it is rather frightening. I do not see real viable competition. I think this has to concern you.

Hon. Mr. Faulkner: Yes, it does concern me, and one of the hopes that I have expressed is that as a result of Bill C-58 and, indeed, some of the support we do give via the Canada Council—although I do not see that as being that germane to this problem—we will, in fact, see the development of other Canadian magazines and, indeed, maybe a second Canadian news magazine.

It would be a much healthier situation to have that sort of competition. However, it is very difficult for me to be urging or encouraging the production of second news magazines when, up to two or three years ago, Canadians were saying they could not produce a first one. *Maclean's* was a monthly publication.

Senator Buckwold: Really, what will happen in the future is that the domination of this market will be so complete that in the end you will have created a Frankenstein and someone will wonder how it ever developed.

Hon. Mr. Faulkner: I have to confess that I think there is a problem down the line of that kind, but, as I said, my hope is that with the passage of Bill C-58, and maybe with some other additional measures of support, which are not developed yet, it will be possible to see more than one emerge. Right now it is an achievement to see one, because we did not have one before.

Senator Flynn: Mr. Minister, it would be interesting if you would put on the record the difference in Canadian content for a magazine and Canadian content for a broadcasting undertaking. It is not the same rule at all.

Hon. Mr. Faulkner: No. Canadian content is, in terms of the magazine industry, a misnomer.

Senator Flynn: 80 per cent.

Hon. Mr. Faulkner: There is nothing in the "not substantially the same" clause that guarantees Canadian content at all. I can give you an example of a magazine that is edited here, published here, conforming to the law, that deals almost exclusively with African affairs, so there is absolutely nothing of Canadian content in it. "Canadian content," in that sense, applied to the magazine industry, is a misnomer and totally misconstrues the meaning of "not substantially the same".

If one had to search for an analogy to clarify the meaning of "not substantially the same", it would be much closer to "dumping." Dumping is a bit pejorative, but that is the sort of problem we are getting at—namely, the importing of material published in another magazine and using it here as an advertising structure. That is basically the problem.

In the "not substantially the same" clause there is nothing in the law, et cetera, requiring it to be Canadian content—which, of course, has been subject itself to a certain amount of criticism. There are people in the House of Commons who have felt that the law in that sense did not go far enough, that it ignored that problem.

My feeling is—and here I come reasonably close to some of the things said by Senator Manning—that if, in fact, you have the ownership and eliminate the licensing and you do not allow them to benefit from the advertising benefits, access to this amortized material outside, you will by definition, if not by law, ensure a certain Canadian content. However, I do say that we have this magazine that

deals exclusively with African affairs, and nothing about Canada.

Senator Flynn: What about broadcasting; how do you solve that problem?

Hon. Mr. Faulkner: Their Canadian content is dead on. That is precisely what you are securing in the broadcasting provisions, namely Canadian programs.

Senator Flynn: Yes.

Hon. Mr. Faulkner: Again, not necessarily about Canada, but in the main they are about Canada.

Senator Flynn: That is done by the CRTC.

Hon. Mr. Faulkner: That is right.

Senator Flynn: But they do not require 80 per cent.

The Chairman: Sixty per cent.

Senator Flynn: Because we are witnessing a dumping of American productions on TV.

Hon. Mr. Faulkner: That is right.

Senator Flynn: So we are not achieving much in broadcasting except in the way of revenues.

Hon. Mr. Faulkner: Again, it is the same economic logic that applies. Only a matter of ten years ago the CBC was running about 30 per cent Canadian because of the economics. The economics of it are so clear. It is so much less expensive to buy "Mary Tyler Moore" and "All In The Family" than it is to develop "The Beachcombers". The economics of this thing are horrendous. If you are there and you do not happen to have a public subsidy, as the CBC does, and you are in Murray Chercover's position, trying to make a living in this business, and you know you can buy that program for \$4,000, and against that program you can develop an advertising structure which would generate \$40,000, versus trying to develop a program in Canada like "Pardon My French"—I do not know what it is costing, but say it is costing \$30,000 to generate and you can only get \$7,000 worth of advertising out of it, and I am exaggerating the figures, then, if you are in business, what do you do?

Senator Flynn: Do you think it will have any practical effect on the Canadian content of broadcasting?

Hon. Mr. Faulkner: Yes. There is no doubt that what the CRTC and the government did by way of Canadian content has in fact, from my point of view as Secretary of State, improved the situation in that area tremendously. Not only in simple pragmatic terms of employment of Canadian artists, writers and cameramen and people like this, but I think making the programming of the CBC more relevant to Canadians.

Senator Flynn: And we may see something else, as you said, because it is subsidized.

Hon. Mr. Faulkner: But even what the CTV is doing has, I think, substantially improved the relevance of that network to Canada and Canadians as a result of the CRTC ruling.

They have a very serious problem which has been recognized by my colleague, the Minister of Communications, which I have talked about a bit, namely the fragmentation of the advertising market as a result of cable and other

developments which will take place. The most serious problem we face today in the broadcasting industry is this fragmentation of the market and the fact that it is going to be increasingly difficult, unless we do something about that, for Murray Chercover and the CTV and the private network generally to generate the sort of advertising they need to do to develop the Canadian programs.

Senator Flynn: Are you at all skeptical about the end results of this legislation with respect to broadcasting?

Hon. Mr. Faulkner: Oh, no. I attach some importance to this. It is \$20 million in terms of the broadcasting industry. I think that is the figure. In itself I do not think it is going to solve the problem, but it is important.

Senator Flynn: Well, \$20 million is the amount now being spent on the U.S. stations, but that does not mean it will necessarily go to the Canadian stations.

Hon. Mr. Faulkner: No, that is right. Frankly, senator, in response to your question I think the fragmentation problem is more fundamental than the problem we are getting at in Bill C-58. But if you were to ask me whether the broadcasting provision of Bill C-58 helps the Canadian broadcasters, I would have to say that it does.

Senator Flynn: Marginally, I suppose.

Hon. Mr. Faulkner: Well, we can argue about marginal or not.

The Chairman: Mr. Minister, when the Minister of Communications was before us, to her it was just a simple problem to deal with this advertising in a foreign border station directed primarily to the Canadian markets. She said, "There is \$20 million involved. When this bill becomes law all that \$20 million will be lifted from the border stations and be gained by the Canadian advertisers". You have no such thought, have you?

Hon. Mr. Faulkner: I am not persuaded that all this money will go to TV productions, because of the problem I mentioned earlier, namely the fragmentation problem.

The Chairman: And the problem we had discussed here, that is, that so much of the prime time on the Canadian stations is already contracted on a 52-week basis. What is the local advertiser going to do? His outlet up to now has been the border station.

Hon. Mr. Faulkner: Well, I have a certain bias. Some of it might go to magazines.

The Chairman: Yes, and to the newspapers.

Hon. Mr. Faulkner: Yes.

The Chairman: And who knows what the next development will be in advertising.

Hon. Mr. Faulkner: That is right.

Senator Molson: And some might go to radio stations.

Hon. Mr. Faulkner: That is right.

Senator Austin: Mr. Minister, you referred earlier in your evidence this morning to the O'Leary Commission and said that you were guided to a very considerable extent in the policy that you have adopted in Bill C-58 by the recommendations of the O'Leary Commission. Rather than going on at length with respect to that, I might just

mention to the committee that you made quite an extensive statement in the House of Commons on February 4 with respect to the policy of this legislation. Are you aware whether the Diefenbaker government introduced a measure following on the report of the O'Leary Commission?

Hon. Mr. Faulkner: Yes. You are getting me deeply involved in history, Senator Austin, and I want to be fair.

Senator Flynn: That was before your time, in any event.

Hon. Mr. Faulkner: That is right. There were measures, but if your next question is what exactly they were, I don't know.

Senator Austin: In summary, I understood that the Diefenbaker government intended to support the general philosophy of the O'Leary Commission as well.

Hon. Mr. Faulkner: Yes. Unfortunately, it was a while ago that I read the debates at that time and I don't want to be unfair to anyone. But having read them I certainly came away with the impression that they recognized that there was a problem here and that they were going to try to do something about it.

Senator Austin: It was my impression that they also intended to fix on advertising, which was the main theme of the O'Leary report, in the legislation which was proposed by that government.

Hon. Mr. Faulkner: That is right.

Senator Austin: I concentrated in earlier questioning on this range of "not substantially the same" between 60 and 80 per cent. I wonder, Mr. Minister, if I could ask you to explain why it would not be attractive in Canada to have a number of periodicals owned 75 per cent by Canadians which were, say, 60 per cent not substantially the same and, therefore, 40 per cent substantially the same as other material.

For example, why should *Maclean's* magazine not have been allowed to bring in 40 per cent foreign material, and a number of other Canadian-owned periodicals of the kind referred to by Senator Manning would also be in that category.

Hon. Mr. Faulkner: Well, the first argument is economic. Obviously, if you were to allow that, then you would give a competitive advantage to that particular magazine. That is assuming that there is any Canadian magazine that tries to generate its material itself. But my analysis of it leads me to the conclusion that, if you did open it up that way, you would perforce have an industry here which would be generating 60 per cent of its material and purchasing on a contractual basis the other 40 per cent. As I said, that seems to me to lead inexorably to a hybrid industry. If you go back to O'Leary and try to understand what animated that report, what sort of principles were at play in that report, you cannot escape the conclusion that in his view and in the view of that Commission periodicals were an absolutely essential means of communication amongst Canadians, not only about Canada but about the world. Therefore, for those two reasons, I feel that that type of threshold would be compromising.

Senator Austin: According to Mr. Cullen's contribution to the House of Commons debate on February 3, 1976, he decided that "not substantially the same" would be 80 per cent, and he made this announcement on October 23, 1975. I

would like to ask you, with respect to that announcement, why it was necessary for Mr. Cullen to seek cabinet support before making it.

Hon. Mr. Faulkner: I hate to embellish the arguments he has already offered. It was a rather exceptional move on his part.

The Chairman: He has not offered anything on this point.

Hon. Mr. Faulkner: Oh yes, I think he has. I think Senator Cook read something from his testimony which indicated the rationale.

Senator Austin: Mr. Cullen made a statement here on May 5.

Hon. Mr. Faulkner: If one bears in mind that Mr. Cullen and his officials are required to make roughly a thousand such interpretations a year—and this is the only one that I know of, though I may be wrong, that has come formally to cabinet—I would think that would give some indication of the importance we attached to it.

Senator Flynn: He did not want to be disowned by cabinet. That is the reason.

Hon. Mr. Faulkner: We do not disown, senator.

Senator Austin: Mr. Cullen made what proved to be a somewhat controversial announcement, and that was that if necessary legislation would be introduced to ensure that the 80 per cent rule stuck. That, to my mind, discloses a cabinet policy with respect to publication at 80 per cent. Is that your view?

Hon. Mr. Faulkner: That is right.

Senator Austin: So that Mr. Cullen was telling the publishing industry that if the courts should find “not substantially the same” to be some other number than the 80 per cent ruling, it would be government policy to seek a change in the legislation to establish the ruling at 80 per cent.

Hon. Mr. Faulkner: Yes. I make two points on that. One is that I share his view that that was a courtesy to the industry. Secondly, it is not unusual, certainly not in our system, where an interpretation or law has proven to be defective in terms of policy objectives—it is done in every budget, pretty well—for the short-coming, from the government’s point of view, to be redressed in a subsequent budget or law.

Senator Flynn: Or by a change of policy.

Hon. Mr. Faulkner: Or by a change of policy.

Senator Austin: Mr. LaRue told this committee that his chief complaint was regarding a lack of precision in the government’s policy position. I take it that Mr. Cullen’s announcement was therefore made to make the government’s position quite precise.

Hon. Mr. Faulkner: That is right. I think, in fairness to Mr. LaRue, that he knew that the 80 per cent figure was there. He knew it as of March, and I think we have correspondence about it. He opposed it, and I understand perfectly well why he opposed it, for the reasons we have discussed. From his point of view 80 per cent was a much more expensive proposition than 60 per cent, and certainly more expensive than 40 per cent. If he could get it down to

10 per cent, that was the most profitable position possible. Mr. LaRue is in business, so I understand that, from his point of view. What Mr. LaRue disputes is that from a publishing point of view the 80 per cent should be there. I look at it as Secretary of State, going back to your earlier question and I say, “What is in the best interests of the Canadian publishing industry?” I say that it is the 80 per cent ruling. That is my judgment, and the judgment of the government.

Senator Austin: What Mr. LaRue told us here was that he was aware that Mr. Basford, in February, 1975, had spoken to a member of the Canadian Press, and had told that person that the range would be somewhere between 60 and 80 per cent.

Hon. Mr. Faulkner: But Mr. Basford, in that same statement, said that 80 per cent was the threshold beyond which there would be no doubt about it being “not substantially the same”.

Senator Austin: There was one point that Mr. Cullen made in his speech of February 3, 1976, in the House of Commons that I think should be referred to. This is on page 10607. He says:

Quite frankly I would have preferred an amendment to the Income Tax Act to specify unequivocally that the words “not substantially the same” be defined by regulation as meaning 80 per cent different. However, this would require a new notice of ways and means motion, and such an amendment would not be feasible at this time.

I take it, Mr. Faulkner, that the government was therefore prevented by a technical or procedural problem from actually introducing a clear legal criterion.

The Chairman: Senator Austin, I think you were here when we discussed the effect of attempting to deal with this by regulation. The attitude of the Senate has always been that they are not going to let the government legislate by regulation. I mentioned that to Mr. Cullen.

Senator Austin: What I am trying to do by my questioning, Mr. Chairman, is to make clear what government policy is today with respect to the 80 per cent problem.

The Chairman: Do you think there is any doubt about that?

Senator Austin: I hope there is not, after this morning.

Senator Flynn: You said “today”. We should emphasize “today”.

The Chairman: I think it is a reflection on the witness. He has been very positive and clear in his statements as to what government policy is on this point.

Senator Cook: I think the question is, is there any difference between the government’s policy and Parliament’s policy as set down in the legislation?

Hon. Mr. Faulkner: No, there is no disagreement of that kind, because it has passed third reading in the House of Commons, where it commanded the support of both the government and its members and of the New Democratic Party.

Senator Smith (Colchester): They were already committed to a position. They could not do anything else but accept it.

Senator Cook: That is Bill C-58, but not subparagraph (F).

Hon. Mr. Faulkner: Well, that was in there in the debate.

Senator McIlraith: I want to follow up on that last point. It seems to me that you have made the policy quite clear, that it must be 80 per cent; but we are not at issue with that at the moment. What concerns me very greatly is this: the courts interpret legislation, and it is clear that no courts have interpreted "not substantially the same as" in percentage terms, whether it be 80 per cent or otherwise. Certainly there is no court decision on that. It is clear, before us as a committee, that the Minister of National Revenue, your colleague, did not see fit to permit the case, under the Income Tax Act, to go to the courts for an interpretation of that provision, and now you are telling us, having made your case for the 80 per cent, that the Minister of National Revenue is going to interpret "not substantially the same as" as being 80 per cent, without Parliament having said so. You say, of course, that it has the approval of the House of Commons, which it certainly has, but you seem to think that that concludes the matter. I suggest that that is a very dangerous way of interpreting tax law. The tax law must either be set out specifically in a statute passed by Parliament, or in a decision of the courts, and any policy of a government, no matter how correct that policy is or how totally acceptable, is not a sufficient substitute in so far as the taxpayer is concerned. Surely you must agree with that proposition?

Hon. Mr. Faulkner: I think, senator, that what I was saying was that the issue of the 80 per cent figure was an integral part of the debate in the House of Commons, because the interpretation was viewed as an integral part of the legislation.

The Chairman: Where does it say that?

Hon. Mr. Faulkner: I was referring to the debates in the House of Commons. The issue itself was not formally before the House of Commons. All I am pointing out, in answer to Senator Austin's question is that it was certainly part of the debate. If anything, one could probably say that it was the central part of the debate.

Senator McIlraith: With great deference, of what importance is that in interpreting the law vis-à-vis a taxpayer? Surely we must either have the legislation that he can rely on or a decision of the courts?

The Chairman: You cannot even quote *Hansard* in court to support your proposition.

Senator McIlraith: I am thoroughly familiar with that situation, and that is what shocks me about the minister having made his case for 80 per cent, and then coming along and telling us that the law is 80 per cent, when there is no support for it either in the statute or in the courts.

Hon. Mr. Faulkner: But senator, there is. The procedures followed were standard procedures. There is, in the provisions of the law of 1965, wording which is, "not substantially the same." The Minister of National Revenue has interpreted that—a practice that he carries out with regularity, and which he is required to carry out under the law as part of his ministerial responsibility; so there is nothing untoward about that. It is rather normal procedure. All I am saying is that in addition to that the issue

itself was very central to the debate in the House of Commons. But it is a technical point.

Senator McIlraith: But what I am saying is that there was not a technical problem in the House of Commons. Parliaments have been very careful to set up procedures for tax legislation. This presupposes a resolution and so on. That is not to be dismissed as a mere technical matter; it is a fundamental matter, in my view of the Commons—and I still rather like the place; I am still rather partial to it. I am somewhat shocked by this whole concept because here is what the minister said to us in the committee of May 5. You will remember that Mr. Cullen, the new Minister of National Revenue, was appointed, I think, September 23, 1975. Mr. Basford had been his predecessor.

Hon. Mr. Cullen: Mr. Basford had indicated, prior to my coming into the portfolio, that he would be making an interpretation before the committee,—

That means the committee of the House of Commons.

— but the bill was held up on second reading in the house, so he never made his interpretation.

That is an accurate and precise statement of the fact.

Therefore, I think out of that grew the speculation, and as late as September 30, 1975 there was still speculation that the figure must be 60 per cent.

That evidence came on top of the evidence that had been given before us about meetings with officials and *Time* magazine officials in the early part of May, 1975 where they were discussing a format for a new magazine and where they were talking, although there was nothing in the nature of a commitment on this, of something in the way of 50 per cent or 60 per cent. That being so, the minister then on October 23—and I think that date is correct, but when you bring the statement we will verify the dates—fixed it at 80 per cent. Now what is concerning us is that the minister, a member of the government, did not let the matter go to the courts. He took the action, rightly or wrongly, and that is his business, of withholding it from the courts and substituting an interpretation of 80 per cent at that point in the sequence of events, and it seems to me that that, coupled with an attempt to make the legislation retroactive for some reason insofar as the periodic press is concerned but not insofar as broadcasting is concerned, does raise grave doubts in my mind as to the propriety of this method of handling the policy you are seeking to implement. This point concerns me very greatly and we are not getting the precise information that I think we should have on this. You have made your case for the policy, and I am not raising the question of policy at all, but I am gravely concerned with this treatment of taxation of the hundreds of advertisers who are going to be affected by this change in the interpretation of the tax provisions. I think it is a very serious matter because, obviously, those advertisers cannot take the matter to court. It would be impractical. Obviously, the only practical way of taking this form of tax to the courts would be to do so with the concurrence of the minister. You have not chosen, for some reason that remains not wholly clear to me, to come to Parliament with precisely the policy you are seeking to implement. I know I have been a little lengthy in setting it out, but I wanted to get the point across because it seemed to me that the last time we were at cross-purposes and were misunderstanding what we were trying to get at.

Hon. Mr. Faulkner: I understand the point you are trying to make, but in reply I would simply say this; that there is the wording in the 1965 statute. The Minister of

National Revenue has the responsibility to interpret that wording and so interpreted it. Your point now is that that in turn should be referred to the counts. I think Mr. Garland has pointed out the reasons why it was not referred to the courts, and over and above that there was the other notion that the government felt that this was a matter of policy, and that it could be argued in the courts and could go on one or two ways. I suppose we could go through that procedure, but even after that particular procedure had been gone through, then for reasons that I think you understand the government felt that it was a matter of policy and there would have to be a subsequent change. So as a courtesy to the people involved, the Minister of National Revenue made that longer term prospect clear to them and I think that rather than circumventing the law or distorting it he was rendering them a service. The procedures in this whole case are totally normal procedures. The law is there and it is his responsibility as minister to interpret it, and he has done so, and he has indicated that that interpretation is also a subject that the government has pondered and feels to be part of policy.

Senator McIlraith: If that is so, and you have given the reasons for not going to the courts, why then did you not follow the other normal course and amend your bill? There is nothing wrong with amending a bill when it is before the House of Commons. In October you had not even gone to the committee of the House of Commons because it went to the committee of the House of Commons, if I recall correctly, about December. Why did you not amend the bill or have Parliament amend the bill rather than following this method?

Hon. Mr. Faulkner: Well, senator, I think there has been an explanation given as to that point. I take it that that is something you would still dispute.

Senator McIlraith: Yes, I would very strongly dispute it. I do believe in Parliament amending it, particularly the House of Commons. There is a procedure set out to safeguard the rights of Parliament and the people of this country, and an amendment like that requires a resolution.

Senator Walker: Which leads to the conclusion, Mr. Chairman, that this attitude of the government, which was not incorporated by an amendment to the bill, was just meant for *Time*. You wanted to knock *Time* out, and now they have been executed.

Now, going on from there, Maclean-Hunter, with their vast international sources for news—and they went into it very thoroughly with us here in committee—and with all the different companies they own around the world, I would suggest are now getting far more than 25 per cent of their content for *Maclean's* magazine. But supposing they are getting more than 25 per cent and you challenge them and say that they cannot do that, they could tell you where to go because there is nothing in the statute to make the situation clear. There is just an interpretation of the department, which is a gross interpretation and if it ever went to a court *Maclean's* could win a case against you any time if you challenge the fact that they have become or that they are becoming like *Time* Canada, importing a lot of information which was not Canadian sponsored or Canadian spawned, shall we say. We have now passed a crisis; you have got rid of *Time* by reason of this ruling of the minister, but the law is still the same. The law would still interpret it at approximately 50 per cent. So I say to you that now that you have got rid of *Time* you do not need this any longer. You have got rid of what you wanted to

get rid of, and Maclean-Hunter or any other Canadian publisher can proceed to do the same thing as *Time* was able to do with impunity until you introduced this bill.

Hon. Mr. Faulkner: We will agree to disagree on my motive, senator; I do not share your view.

Senator Walker: It may not have been your motive, but isn't that the result?

Hon. Mr. Faulkner: No, I think it is quite obvious that *Time* is still quite visible in Canada.

Senator Walker: They certainly do not think so; they are losing \$70,000 a week.

Hon. Mr. Faulkner: It seems to me that they are quite visible. In terms of the impact of the law on *Maclean's*, it applies to them with equal force as to any other magazine. If they go beyond the terms of the provisions of the law, obviously the Department of National Revenue will be in a position to indicate that the advertising is no longer deductible.

Senator Walker: They can challenge in court and win. As a lawyer, I can tell you that there is no question about that. Then you would have to amend the 80 per cent, if the court were to bring in a judgment saying that they find still...

The Chairman: Senator Walker, I think your direct statement as to the law is bothering the minister.

Senator Walker: Oh, yes.

The Chairman: Let us assume that the law in the form of the 80 per cent ruling is not upheld by the courts.

Senator Walker: Very good; that is much better. Then what? You would then have to amend the bill, would you not?

Hon. Mr. Faulkner: That is right.

Senator Walker: Then is the reason for not doing it that you did not have to do it and you got rid of *Time*, so let the law go back to what it really is without any interpretation or change to 80 per cent so that when MacLean-Hunter gets under way they can just do it to their heart's desire and become as American as *Time* magazine?

Hon. Mr. Faulkner: Not at all, senator.

Senator Walker: Not at all?

Hon. Mr. Faulkner: Not at all. The interpretation has been given by the Minister of National Revenue consistent with his responsibilities as minister of that department, interpreting laws two or three times every day of the year. That interpretation stands and applies to *Maclean's* in the same manner as to *Time*, *Canadian Forum* and the *National Geographic*.

Senator Walker: With the greatest respect, I suggest to you that it does not stand.

Senator Flynn: What was the previous understanding of those words until the announcement of the minister that it would be 80 per cent?

The Chairman: There was no interpretation, because there was no case for it. The evidence we have is that there was no non-Canadian magazine seeking a position in Canada such as that of *Time* and *Reader's Digest*.

Senator Flynn: That is when the minister says these words have been there for a long time.

Hon. Mr. Faulkner: The understanding and the meaning of those words has been there for a long time.

Senator Flynn: What was the understanding of "substantial" before the 80 per cent rule?

Hon. Mr. Faulkner: Obviously, at least in my mind, it was a very high figure, such as 80 per cent.

The Chairman: It is not recorded anywhere.

Hon. Mr. Faulkner: No, because, of course, the issue was not joined, senator; but it was joined by Bill C-58 and, of course, the interpretation was made.

Senator McIlraith: I would like to repeat a point raised at the last meeting, as I do not believe that it was clearly understood and maybe I did not project myself correctly on the point. The part of the bill relating to broadcasting makes no provision for retroactivity of the clarification, or change, or whatever it is, of the tax law. In the part relating to the periodic press it is a retroactive bill, not by way of intention when the bill was introduced, but way of circumstance because of the unusually long time the bill was before the House of Commons. I am referring to the clause containing the date, so it has become retroactive tax legislation. Now, since *Time* has already made its advertising changes and so on, I was a little nonplussed when you said you still wanted that clause to be retroactive. I wonder if you would care to either reconsider or elaborate on that answer a little. I am quite unable from all the evidence, both from you and your colleagues, to perceive any reason for asking for the retroactive legislation, and I am rather surprised that neither you nor your colleague has come forward asking us to change the date to whatever arbitrary date you choose after the bill passes.

Hon. Mr. Faulkner: Senator McIlraith, I was at some pains to give the magazine side of the industry fair notice. I announced my intentions in January 1975 and introduced the bill in February and it was not to become effective until January the following year. The bill was, as you know, a rather simple bill, eliminating the exemption. I thought that was pretty fair notice.

Senator McIlraith: It would have been, had you been able to manage the process or presentation in the other house in a way that would have got it through within the normal expectation. I would think you probably expected to have it through by the summer recess and that was fair notice. However, that did not happen and that is not the fault of the taxpayers. I suppose it is not anyone's fault, but a circumstance that happens in Parliament with which we are all familiar. It having happened, why should we now be in the position of giving the taxpayer unfair notice?

Hon. Mr. Faulkner: I would argue that point, senator. I think, in terms of the advance notice of changes in tax law, Bill C-58 is a model. There are very few examples that I can consider of changes in tax law where the individual parties affected are given virtually a year's notice. There are examples, but in the main I would say that it is fair to say, based on my own experience in the House of Commons, that that was pretty generous notice. I know you disagree with me.

Senator McIlraith: Yes, but I must place something on the record and say to you that many taxpayers do not

accept the proposition that what the government proposes to Parliament is automatically the law. They rather prefer to have the legislation passed by the two houses. I must ask you then, can you give me any other example during the last 35 years of retroactive legislation of this nature, outside of budget legislation?

Hon. Mr. Faulkner: I do not know why you would say "outside of budget legislation".

Senator McIlraith: Because you did not use the traditional methods as in budget procedures in this change. You do not admit that the change or clarification is a change. It flows naturally from the point I hope I made earlier. I do not see that it has any effect whatever on the revenue or on the transfer of advertising from one segment of the magazine industry to the segment to which you desire by your policy that it go. However, I am just at a loss to understand this new government doctrine of retroactivity in tax legislation by a minister, other than the Minister of Finance when he is dealing with the tax legislation for revenue purposes.

Hon. Mr. Faulkner: That really is an interpretation which is yours.

Senator McIlraith: It is supported.

Hon. Mr. Faulkner: I disagree with you; in my opinion, we were at pains to give them substantial advance notice of our intention, and I think I have to let my case rest on that.

Senator Cook: Is your intention the same as that of Parliament?

Hon. Mr. Faulkner: Obviously, if the law does not pass implications will flow from it. In terms of giving the industry advance notice of our intention, I think the year was reasonably generous.

Senator Smith (Colchester): Was part of that notice the fact of the 80 per cent?

Hon. Mr. Faulkner: No; that was first stated in February, or March. I cannot remember the date. It was either February or March. It was finalized at 80 per cent in October. The first indication of the 80 per cent as a threshold was in the spring.

Senator Smith (Colchester): I understood that what Mr. Basford was arranging then was between 60 per cent and 80 per cent.

Hon. Mr. Faulkner: That range came under some considerable criticism, because it seemed to be rather arbitrary. How could one magazine qualify for, say, 60 per cent and another would have to be 80 per cent? The clarification was to eliminate that range.

Senator Smith (Colchester): But it seems to me that it is going a little far to argue that because Mr. Basford, in February, or whenever it was, said that the range was between 60 per cent and 80 per cent, the industry should take it at 80 per cent.

Hon. Mr. Faulkner: That might be fair comment, senator, but they would know that they were operating between a firm level of 80 per cent and a possible area of 60 per cent. You are talking about a differential of 20 per cent, and in publishing terms that was not the hangup, that was not the problem.

Senator Molson: Mr. Chairman, in view of all the problems the minister is having in the matter of the 80 per cent definition, I wonder if he would welcome an amendment to the bill.

Hon. Mr. Faulkner: I am not looking forward to amendments, if that is what you are suggesting.

Senator McIlraith: Why? What is wrong with it? That is part of the parliamentary process.

Hon. Mr. Faulkner: The senator was gracious enough to ask me whether I would welcome an amendment, and I was only being candid in my reply. It is not just myself involved. I am not in the publishing business. There are a number of people outside who are looking at this bill.

The Chairman: There has been a suggestion, in the speeches you have made and elsewhere as this bill progressed, concerning the contribution to the national culture of Canada that would develop once this bill became law, or that you hoped would develop once this bill became law, and Canadian magazines, in their development arising out of this legislation, would participate in the development of that culture to a marked degree. That is the substance of what you said. To what extent did you study the capacity of these various Canadian magazines, and what might be their ability to project any culture within that definition?

Hon. Mr. Faulkner: That is an interesting question. I did, in fact, discuss with a number of Canadian magazines —

The Chairman: Including Maclean-Hunter?

Hon. Mr. Faulkner: Yes, I think I talked to them once or twice. I talked to a variety of other people in the publishing industry. There was a discussion related generally to economics of publishing periodicals in Canada, the problems they encountered. It was out of that sort of discussion that the decision on my part, to try to eliminate the exemptions in the Income Tax Act, derived. There was that sort of level of discussion, and then there was a review of the recommendations of the O'Leary Commission. There were also some discussions with people in our department about the state of the publishing industry. I take it that those three elements together constituted the base for the decision.

The Chairman: I was wondering whether, in your study of Senator Grattan O'Leary's report, you gave any consideration to a statement he made when he appeared before the Mass Media Committee. Have you seen that?

Hon. Mr. Faulkner: Yes. I think I know which one you are going to read.

The Chairman: May I read it to you?

Hon. Mr. Faulkner: Yes.

The Chairman: It is at page 160 of volume 1 of the Mass Media Report. It says, at the bottom of the page:

As far as one distinguished observer is concerned, that status is already pretty marginal. Senator Grattan O'Leary favoured the Committee with his views on what's happened to the magazine industry since he made his report, and concluded that, in his judgement, the existing Canadian magazines have declined in quality. "Were I making my report today," he added, "I would not have been so concerned for those maga-

zines . . . I am not so sure that *Time* magazine today is not the best Canadian magazine we have."

I assume that was thrown into the melting pot to enable you to reach your conclusion, that you would get good value for this bill in the capacity of development of Canadian culture?

Hon. Mr. Faulkner: That is right, Mr. Chairman.

The Chairman: I assume you have seen the newspapers recently, to the effect that Maclean-Hunter may not have much time to devote to the development of Canadian culture until they get rid of some of their present problems?

Hon. Mr. Faulkner: To what are you referring, Mr. Chairman?

The Chairman: I am referring to news items in newspapers recently, where a wholly-owned subsidiary of Maclean-Hunter and officials have been charged in connection with what is called a pornographic crackdown.

Hon. Mr. Faulkner: Do you think I should reconsider the bill in the light of that?

The Chairman: That is up to you.

Hon. Mr. Faulkner: I can give you my response. I would not reconsider the bill in the light of that.

Senator Flynn: The Canadian identity!

Senator Macnaughton: A very interesting identity!

Hon. Mr. Faulkner: Despite suggestions to the contrary, this bill was not devised with any particular magazine or group of magazines in mind. It was designed to deal with the general economic problem faced by Canadian periodicals, and that is still the rationale for it, and will, it seems to me, continue to be the rationale for it.

There are a variety of other magazines which are benefiting from it, and I take it that the head of the Canadian periodical publishers' association made that point when she was a witness here. We cannot be mesmerized by a single potential beneficiary. This is an industry made up of over 100 separate magazines, all of which have a certain contribution to make. I mentioned earlier the *Canadian Geographical Journal*. I happen to have a particular interest in that. I think it is a relevant, important periodical in Canada. Some of the articles it has done this year on places like Toronto, in analyzing the impact of urban growth, are articles which otherwise we would not have had. If we do not see these as problems, or as questions that we should be considering, then obviously this bill is a waste of time. But if you share my view that these are our problems, that they should be analyzed and that we should be thinking about them, then it seems to me that the bill makes sense.

The Chairman: Are there any further questions?

Senator Smith (Colchester): A moment ago the minister, in dealing with my question about 60 per cent to 80 per cent, made the point that the spread of 20 per cent would not be a problem for the industry. I think that was his answer.

Hon. Mr. Faulkner: That is right.

Senator Smith (Colchester): But I understood it was very much the problem of *Time* and *Reader's Digest*. To put it another way, I understood there would not have been so

much difficulty for them to meet the 60 per cent as it was for them to meet the 80 per cent.

Hon. Mr. Faulkner: As I understood your original question, it related more to the announcement coming in October, and whether they had time between October and January to move from 60 per cent to 80 per cent. Was that 60 per cent differential, which was clarified in a definitive way in October, really a problem? In other words, were they living with the expectations of 60 per cent, and then could not possibly get up to 80 per cent between October and January? That was not their problem. Their problem was that they would not go beyond 60 per cent, and they would prefer to be, I take it, around 50 per cent. In fact, their ultimate preference would be back where they were, namely, at 10 per cent; and every percentage increase we added was added to their cost. I understand that.

Senator Smith (Colchester): I understand that both *Time* and *Reader's Digest* felt they could meet the 60 per cent requirement. Am I right about that, so far as you are aware?

Hon. Mr. Faulkner: My impression was 50 per cent. You would have to ask them.

Senator Smith (Colchester): I did ask them—

Hon. Mr. Faulkner: And they said 60 per cent or 50 per cent?

Senator Smith (Colchester): That is my recollection—60 per cent.

Hon. Mr. Faulkner: I thought they said 50 per cent.

Senator Smith (Colchester): The argument which took place concerning the memorandum that was discussed but never signed surrounded the figure of 50 per cent.

Hon. Mr. Faulkner: I did have some discussions with prospective buyers of *Time*. As I understood it, those Canadian buyers were certainly talking about 50 per cent. I told them at the time that I understood their argument. It was a very simple, economic argument—at 50 per cent, it is an attractive commercial proposition; at 80 per cent, it becomes too expensive, though not impossible, because every Canadian magazine has to do it. In fact, most Canadian magazines are at 100 per cent. It is a costly business.

Senator Smith (Colchester): May I ask a further question about the refusal to join any reference to the court? As I understood your answer today, Mr. Minister, it boils down to the fact that the decision was made simply because it would be a waste of time. If the court decided contrary to the view of the minister, then the government would support legislation to give effect to the view of the minister. Have I interpreted it correctly?

Hon. Mr. Faulkner: I think that is a fair interpretation. Mind you, I take it *Time* could have gone to court on its own. I am not a lawyer—

Senator Walker: That is true, but your friend, the new minister, said that had they done so he would have passed an amendment making it 80 per cent.

The Chairman: Senator Davey.

Senator Davey: Mr. Chairman, I had a long series of questions, but most of them have already been answered most effectively by the minister.

I have only two questions. First of all, is it not true that at the time of the 1965 legislation, American business press publishing companies, giants in the American publishing industry, were prepared to come into Canada and set up shop? Is it not true that because of the 1965 legislation they did not come into Canada and, as a result, the business press in Canada is wholly Canadian-owned and extremely successful?

Hon. Mr. Faulkner: Yes, I think that is true, and I believe it is borne out in Volume III of Mr. Pearson's memoirs.

Senator Davey: So, the legislation in fact worked very well in that instance. You made a speech in Winnipeg to the Canadian-American Dialogue of The Canadian Institute for International Affairs, and I would like to quote an excerpt from that speech which ends with a question. I would like you to answer the question which you posed at that time.

You state, in part:

Note that it was not the United States government, or by and large the United States press, or even the United States congress, that opposed the magazine part of Bill C-58. I suspect they were surprised we had taken so long getting around to it. In fact, there was a substantial measure of understanding from many Americans... No, the problem is here at home, with us. And at or near the end of the experiment which Bill C-58 was, I am left with a question but no clear answer. The question is, do Canadians want to embark on this high adventure of acquiring self-knowledge or do they want to continue the comfortable drift towards cultural oblivion?

I would like you to answer that question, Mr. Minister.

Hon. Mr. Faulkner: I answered it in part, I think, in replying to Senator Manning earlier. I certainly think this legislation is working. I think that is manifestly obvious if you take a look at the periodical industry today. You do not have to ask me. Ask the periodical people whether they feel Bill C-58 is working. They will reply, without equivocation, "yes."

The broader question I raised in the Winnipeg speech deals with the overall commitment of Canadians as a people towards an interest in what I describe, and Tom Symons and others have described, as the Canadian reality. Are those issues which constitute life in this country to be central in our preoccupation—not at the exclusion of the world abroad, because we have been internationalists since the very beginning, and we have a very distinguished record as internationalists? But there is a growing preoccupation amongst a number of Canadians that the reality of Canada has to become much more central to our preoccupations than it is at the present, and the vehicle for that reality, obviously, in part, is the periodical press. They can, with a certain detachment—and I defer to Senator Buckwold on this, because there are problems—with a certain detachment, review such things for us, which review can form the basis for our discussion and analysis of our own life. It is that, ultimately, which I am after.

The Chairman: If there are no other questions, I will, on behalf of the committee, thank the minister for his attendance.

I cannot at this time announce the date of our next meeting. We will not meet tomorrow. There are some hearings scheduled for next week on the Canadian textile

industry. Whether those meetings will go ahead or not, I cannot say at this time. I am awaiting confirmation as to whether or not the Senate will sit next week. If the Senate does not sit next week, I am hopeful of establishing a quorum so that those meetings can proceed.

Given the possibility of a summer adjournment coming at the end of June, time is limited. It is my hope that we can complete our hearings on Bill C-58 on June 9 and June 10, following which we will commence our deliberations as to our report. If we can abide by that time schedule, we can finish this bill before June 30.

Senator Davey: Mr. Chairman, the Association of Canadian Advertisers will not be appearing tomorrow?

The Chairman: No.

Senator McIlraith: Mr. Chairman, in view of the pressures of time, perhaps we could get a definite time from

the minister as to when the documents requested will be made available to the committee.

Hon. Mr. Faulkner: We will get them to the chairman this afternoon.

Senator McIlraith: If they could be distributed right away, Mr. Chairman, it would be helpful.

The Chairman: Yes.

Senator Hays: Is the *Time* mock-up available to the committee?

The Chairman: No, but we will endeavour to obtain it.

Senator Hays: It seems to me it would be worth having it before the committee.

The Chairman: I will try to obtain it.

The committee adjourned.



Government
Publications

FIRST SESSION—THIRTIETH PARLIAMENT
1974-75-76

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
**BANKING, TRADE AND
COMMERCE**

The Honourable SALTER A. HAYDEN, *Chairman*

Issue No. 89

WEDNESDAY, JUNE 2, 1976

Eighth Proceedings on:
"Canadian Textile Problems"

(Witnesses—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman.*

The Honourable Senators:

Austin	Lafond
Barrow	Laird
Beaubien	Lang
Buckwold	Macnaughton
Connolly	Manning
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
*Flynn	Smith
Haig	(Colchester)
Hayden	Sullivan
Hays	Walker—(20)

Ex officio members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, May 27, 1975:

Pursuant to the Order of the Day, the Senate resumed the debate on the inquiry of the Honourable Senator Desruisseaux calling the attention of the Senate to Canadian textile problems.

After debate,

The Honourable Senator Asselin, P.C., moved seconded by the Honourable Senator Choquette, that the subject-matter of the inquiry be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, June 2, 1976
(119)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m.

Subject: "Canadian Textile Problems"

Present: The Honourable Senators Hayden, (*Chairman*), Barrow, Connolly, (*Ottawa West*), Cook, Desruisseaux, Flynn, Lafond, Macnaughton, Molson and Smith, (*Colchester*). (10)

Present, not of the Committee: The Honourable Senators Asselin and Lapointe. (2)

In Attendance: Mr. C. A. Poissant, C.A., Consultant to the Committee.

WITNESSES:

C.S.D. (Centrale des syndicats démocratiques)

Mr. Paul-Émile Dalpé, President (président);

Mr. Jean-Paul Hétu, Vice-President (vice-président);

Mr. Jean-Noël Godin, National Federation of Clothing Industry Workers Inc.;

Mr. Réal Labelle, Secretary (secrétaire);

Mr. Pierre Bélanger, Economist, (METREQ); (économiste (METREQ));

Mr. Armand Gagnon, Canadian Federation of Textile Workers.

C.S.N. (Confédération des Syndicats Nationaux):

Mr. Hervé Ménard, President (président);

Mr. Gilles Demers, Secretary (secrétaire);

Mr. Denis Martel, Advisor to the Union; conseiller syndical;

Mr. Gilbert Rousseau, Researcher (rechercheur);

Mr. André L'Heureux, Director, Policy Services. directeur des services de la politique.

Following the opening statements the Committee proceeded to the examination of the witnesses in furtherance of its study of the above subject.

At 12:40 p.m., the Committee adjourned.

At 2:30 p.m. the Committee resumed.

Subject: "Canadian Textile Problems".

Present: The Honourable Senators Hayden, (*Chairman*), Barrow, Cook, Desruisseaux, Lafond, Macnaughton, Molson and Smith, (*Colchester*). (8)

In Attendance: Mr. C. A. Poissant, C.A., Consultant to the Committee.

WITNESSES:

Kingston Independent Nylon Workers Union:

Mr. Robert K. Lutz, President; and

Mr. M. St. Amand, Vice-President.

Following the opening statement the Committee proceeded to the examination of the witnesses in furtherance of its study of the above subject.

At 3:00 p.m. the Committee adjourned until 9:30 a.m., June 3, 1976.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, June 2, 1976

The Standing Senate Committee on Banking, Trade and Commerce met this day at 9.30 a.m. to give consideration to Canadian textile problems.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: First, I wish to thank all the senators who gave up their entitlement not to be here and are here so that we can conduct these hearings. Three groups will appear today and, dealing with them in alphabetical order, the first one will be C.S.D. Seated immediately on my right is Mr. Paul-Émile Dalpé, the president, who will make the opening statement. Mr. Dalpé, would you present what I would call your panel, then make your opening statement, following which we will have a question period?

Mr. Paul-Émile Dalpé, President, Centrale des syndicats démocratiques: Mr. Chairman, before making a statement, allow me to introduce the members of our delegation who are accompanying me and who also represent la Centrale des syndicats démocratiques. On my right, the Vice-president of the Centrale, Jean-Paul Hétu; on his right, the president of la Fédération nationale du vêtement, Jean Noël Godin; sitting in the room, the president of the Fédération canadienne des travailleurs du textile, Mr. Armand Gagnon; then, representatives of each of the two federations, who come from different parts of the province and also members of the executive of either federation and Mr. Pierre Bélanger, from the firm METREQ, which has substantially contributed to the research which enables us to present our brief today.

We have been impatiently waiting to be called to appear before your Senate Committee on Banking, Trade and Commerce, because the problem we intend to discuss with you is of paramount importance to the workers we represent. In fact, we wanted to send you our brief as soon as possible so that you may study it, and through its contents, remember that what we are most interested in, is jobs.

In fact, during the last few years, we have had the opportunity of coming to the federal capital, for the presentation of briefs to the Textile and Clothing Board. Furthermore, on those many occasions, we could only repeat our concern faced with the situation which was worsening each time, in relation to imports. Therefore, we would like to emphasize, and I do it here with all the necessary emphasis, that we are not concerned about the textile industry as such, but about the jobs the workers have in that industrial sector. I think you have been able to note, by reading our brief, that we deal with the situation very realistically; that we do not dream, that we think we have the opportunity to play a part in the evolution of the government's policy, while sticking to our original aim, which is to preserve jobs.

Then, with your permission, Mr. Chairman, we could now, unless you wish to do otherwise, review quickly the

contents of our brief, and after we would try to answer the different questions which you may ask.

It has often been said that the Canadian textile industry is traditional, uneconomic, has a low productivity, and employs cheap labor. I think, following our review of the situation, while recognizing some of those facts, one can conclude to a rather obvious denial of those allegations. They too often forget that those industries employ more than 200,000 workers in Canada, and that in the province of Quebec in particular, if we take Estrie as a region, 35% of the manpower available is employed in that industrial sector. Therefore, we try to identify the uneasiness in the textile industry, and how it shows itself. What are its causes? What are the solutions which could be found? Our aim is not to suggest solutions which will enable us as of next month, to solve the problem. We are capable of dealing with the problems and of trying to find long-term solutions, while always keeping in mind the employment problem.

If we examine the evolution of production and employment, we discover that industrial production, in the clothing sector more particularly, has remained rather stagnant, while in the case of textile and hosiery one can see rather satisfactory performances if they are compared to the other industries' as a whole. Since 1966, and even more from 1970, those last two industries have been progressing very rapidly. However, in 1973 one notes that they reached a ceiling, but the decline at that time, affects almost all sectors and seemed to have continued.

One can say that in relation to other manufacturing industries, the textile, clothing, and hosiery industry is one whose behaviour has been more than satisfactory during the years 1961-73. One could explain that during the last few years, there has been a slowdown, but it seems to have taken place in the whole economy, and when one notes that in the TCH sector, there has been a stronger slowdown, one must wonder; how is it that this sector has been more affected than others, finding itself in an almost similar situation, therefore, if it has been more adversely affected, it is because the recession has stronger effects on it and it is necessary to wonder what is happening?

If we consider the industry's composition, we note that it is divided between the two provinces, Ontario and Quebec. Surely, there are other textile industries in other areas of our country, but massively, they are located in those two provinces. Now, one can notice a migration of some types of these industries, among others, of the clothing industry, from Ontario to Quebec, and conversely, to Ontario from Quebec, in the case of the textile industry. We will see, gradually, how this migration is accounted for, but now it is necessary to keep it in mind, because at a given time it will be important.

If we compare the two, Quebec and Ontario, we discover that in one sector, Ontario seems to gain ground in the

textile industry in relation to Quebec, while it is the opposite in the clothing industry. Now, if we consider clothing in Ontario, in 1953, it reached 27.3%, as a relative part of Canadian production, and increased to 20.1% in 1973; as to hosiery, Ontario's production amounted to 52.2 in 1953, and it reached only 24.6 in 1973.

On the other hand, in the case of textiles, one discovers that in 1953 52.5% was Quebec's relative portion, while in '73, it amounts only to 49.6%. Furthermore, statistics show that for Ontario, in '53, it amounted to 41.9, and increased to 45.7 in 1973. Therefore, it means there is a rather obvious transfer from one province to the other in those sub-sectors of this industry.

As for employment, it is rather strange to say that it is the clothing industry which recorded between 1951 and 1973 the best performance at the employment level to reach a rate of increase of 10.4% for the whole period, while in the other two sectors, that is textile and hosiery, the indicators are 8.8% and 5.6%. Of course, in relation to the whole manufacturing industry, the whole textile industry experiences a deterioration of its relative position, while the rate of increase in employment in the manufacturing sector is approximately 34%, between 1961 and 1974, and that it is of 29, 19 and 14% respectively in the textile, the hosiery and the clothing sectors. The deterioration of this situation continues in 1974 and 1975. We know the magnitude of the recent lay-offs, it is not necessary to recall the 7,731 dismissals, in less than a year and a half, to show that the problem really exists.

Therefore, one can say that in the textile industry the difficulty essentially occurs at the employment level. It is the worker who is mainly affected by it. This certainly brings us back to my original statement in which I tried to point out that employment is our main concern. For instance, if we consider the number of jobs in Quebec and in Ontario between 1953 and 1972, we discover that on the whole, Quebec has 8.2 and Ontario has lost, has dropped to -6.8. Which means, on Ontario's side, there is an obvious migration of one part of this industrial sector to Quebec.

Now, if we try to find out what is happening now, we must look a little into the past to discover that an effort of mechanization has been made in the textile, clothing and hosiery industry in order to make it more competitive, and surely every time an industry is mechanized, it is in order to replace labor.

In spite of some mechanizations which increased productivity, there has been very substantial losses of jobs in that industrial sector. Therefore, again it is employment which is affected by this phenomenon. On the other hand, if mechanization has had negative effects on employment, it has the benefit of having increased substantially workers' productivity. Indeed, while productivity increased at an average annual rate of 4.2 per cent for Canadian manufacturers as a whole, during the last decade, the textile, clothing and hosiery industries recorded a rate of 5.1 per cent, according to the Canadian Textile Institute. Therefore, it is a very interesting observation.

Concurrently with the thrust of this mechanization and its effects, among them a higher productivity, we can note concurrent wage increases. It is also true that in the industrial sector, wages increased since 1961, more rapidly than in the manufacturing sector as a whole, but one must also agree that productivity had also increased, and this more rapidly than in other manufacturing sectors. Therefore, wage increases granted only reflect the increase in production, because they still have to catch up. Because if we

consider wages paid now in those industries, we discover that the average wages amount to about \$4 an hour in the textile industry, \$3.31 in the clothing industry and \$3.01 in the hosiery industry. I am convinced nobody is astounded by those rates.

Another difficulty the industry must face, is surely, imports. We know that, between 1964 and 1973, the Canadian consumption of primary textile products has increased, in weight, by 75%. Therefore, we are using more and more textile products in Canada. On the other hand, domestic production has increased by 21% only, compared to 171% for the imports. That is to say that the latter have increased fourfold between 1949 and 1973, while the domestic production has increased by only 86%. The domestic industry then sees its market crumbling because the imported products, often of good quality, are less expensive than Canadian products.

As far as volume is concerned, we note that the market share of the domestic producers dropped from 72.9% in 1949 to 49% in 1973, for fabrics. It seems that cotton is the most affected since only 35.9% of the market is owned by Canadian companies. In spite of the policy established in 1970, the Canadian percentage, in the primary textile sector, which had stabilized around 60 per cent since 1959, has decreased to less than 50 per cent in 1972. The same thing happened in the hosiery trade. The Canadian share, which was about 90 per cent in the sixties, has dropped to 68 per cent in 1971-72, to come back to about 79.6 per cent in 1973.

Senator Desruisseaux: Mr. Dalpé, I am sorry to interrupt you in your presentation but to make it clearer and by comparison with other industries, and sectors, what is the situation for the textile?

Mr. Dalpé: I do not believe that particular research has been made to compare textile, clothing and hosiery with other products manufactured here. But at first glance, it does not seem that other industrial sectors experience such important problems with the imports. It would seem that it is only the industrial sector which is faced continuously, not to say cyclically and acutely, with problems related to imports. Does that answer your question, Mr. Senator?

Senator Desruisseaux: Thank you.

Mr. Dalpé: It must definitely be recognized that the textile industry is capable of competing. However, it must be understood, all things being equal, that, when we have to face imports from the so-called developing countries, where wages are nearly 30 cents an hour in Canadian currency, and keeping in mind the rates I have mentioned a moment ago, it is absolutely impossible to face such a situation without some protection or without some barrier, from a commercial point of view, and that is why the present Canadian government policy as a whole is being questioned in this sector.

A high proportion of the Canadian textile industry is located particularly in Quebec. Furthermore, at the industrial and commercial levels—I am talking about the Department, in Quebec—there is confident hope for the future of this industrial sector. It is known, among other things, that it is not of primary concern to the Department's officials. There are perhaps, behind this behaviour, objectives which remain absolutely confidential and, which will some day be revealed in a startling announcement. But, for the time being, there seems to be a lack of confidence in this industrial sector's ability to last very

long, and this is perhaps the reason why there seems to be no interest in it. However, if we look at the reasons for the present difficulties in the textile industry, some factors nevertheless lead us to hope in the future.

The introduction of synthetic fibres has undoubtedly contributed for a good part in transforming this industrial sector and that will enable other producers using the same sources to attempt to re-take a part, if not all, of the Canadian market. A lot of research has been carried out and many products which were at one time made of textile, are now made with quite different materials. Some are made of paper, rubber, or plastic. It is obvious that this part of production no longer exists. The imports which we discussed, are evidently responsible for a great part of the problem. It is not easy to determine the degree of protection enjoyed by the Canadian industry in this sector. How can the proportion of the market held by local producers be estimated? There is no easy answer to that question. But without having to use very sophisticated and complex statistics I think that the employment situation, which any worker can refer to, since he is the first one to suffer from it, is sufficiently evident to make us realize there is, somewhere, someone who produces, since consumption increases and that, if we stop producing, the workers will be laid off. We can add to that the increasing propensity of some producers, and manufacturers who, seeing the invasion of our market, do not hesitate to become, in turn, and simultaneously, manufacturers and importers. It is the case of many and there are examples in the appendix of our brief, which can convince anyone who believes he is irreducible, that it is the bitter truth.

We can also add to that the likelihood of factories being relocated abroad. Let me mention one example, because it comes to mind: Ruben Brothers, in Victoriaville, just opened a men's clothing factory in Cali, in South America, to meet American market demand, and perhaps also Canadian market demand. For us, that means that a number of jobs have been exported. The situation is the same each time we buy imported goods; we are exporting jobs.

I have already referred to the wage increases which were obtained in this industrial sector over the past few years. It is easy to prove that this did not amount to a gift to the workers. On the contrary, as productivity increased considerably, an agreement had to be reached whereby part of it was returned to the workers, and in spite of this, there is still some catching up to do.

There is a point, however, on which nobody has really insisted up to now, but which is quite important for us, and that is the lack of inter-industrial relations between the textile-clothing-hosiery sector and the other industries. I think it is a reality all the other industrial sectors are facing. Each one attempts to profit from the growth of others, while in the case of the textile, that does not seem to be the truth or the reality. I take for examples the clothing manufacturers which are not always first to buy from Canadian textile manufacturers the material they need for their clothing. So there is an obvious lack of relations between groups which have nevertheless an obvious relationship. Thus, what can be said about the other industrial sectors which are not so closely related to the textile industry, but which, in some degree or other, could maintain relations with the textile industry since their industrial needs force them to refer to them at some time or other. But if we attempt to summarize, I think that we will conclude that the difficulties of the industry, and its

fatal consequence for the worker; i.e. the disappearance of their job, are firstly, the importations and secondly the lack of structural consistence in the industry.

Now, if we look on the Quebec side in particular, and if we compare what could happen in Ontario, we can easily conceive that Ontario could protect itself in a much more efficient way against a wanted decline of the textile clothing sector, while, for an important number of our communities in Quebec, it would be a real disaster, many communities having, as employers, only one or two industries of this kind. Which is saying that whole populations would be sentenced to idleness, if not to becoming ghost towns.

Allow me here Mr. President, not necessarily to go off into a digression but to make a remark on a situation, dealt with quite thoroughly already and which would lead to believe that it is the wage increases given in Quebec which caused the actual pattern of the textile industry relocating in Ontario. This is absolutely untrue. The wages in Ontario compare to those in Quebec. This probably encourages the primary textile, particularly, to operate in the province near Quebec. It is probably the proximity of primary commodities, the synthetic material increasingly growing and the petro-chemical industries in the Sarnia area could supply a good part of the industrial feedstock.

Now, I think it is time to touch the core of the problem which concerns you as senators. I had the opportunity to read the minutes of proceedings of the meetings you have already held, and more particularly your preliminary report of April the 7th. It seems that you have decided to ring the bell and, without perhaps being as aggressive as we are towards the Canadian government, to nevertheless make them feel they must absolutely change the present policy respecting this industrial sector. We know that the Government adopted in 1970 a specific policy in the field of clothing and textile. That policy tended to maintain the number of jobs created, while tempting to design a long- and medium-term policy, to eliminate the non-viable industries that could not be competitive, and allow the other ones to modernize by giving them some protection.

But unfortunately, I believe that policy had more negative effects than positive ones on the industry. A commission was created indeed, with a special mandate: to evaluate the hardships that might result from imports, as they would be felt. It seems however that in most cases, the commission intervened too late or, when it submitted its reports on time, the discussions in which the inter-departmental committees had to engage themselves before the minister could decide on approving or rejecting the policy recommended by the commission, contributed to nothing but worsen the situation and aggravate the damages already caused.

We had the opportunity to meet several times with that commission and I can tell you that personally, I am convinced that the members of the commission did their best, under the circumstances and with the means that were available to them, to give us satisfaction. Federal statistics might be surprisingly exact when they are published, but they are not always readily available when one needs them. We have always been worried by the attitude of the Department of Industry, Trade and Commerce, concerning the danger that imports represent for hundreds of thousands of people working in a field of such primary concern. I used to outline this system by saying that it was hard for the workers to understand why customs agents are almost able to see through car trunks and seize

40-ounce liquor bottles, while unable to see the cargos sailing to harbours. I think that such a way of describing the actual situation may be sarcastic, but it sticks to the facts.

The authors of the policy adopted in 1970 by the Government tried to give some attention to the workers that could be affected by imports. It went far enough to stipulate that 55 year-old workers, that age has now been lowered down to 54 years, able to prove that over 15 years of employment within the industry, they had worked 1,000 hours in all for 10 of those 15 years, would be entitled to an early retirement. I was surprised to learn, during a recent meeting with officers from the Department of Labour, that since 1970, and those are figures as of May 31, 1976, 147 workers benefit from the agreement. The explanation to that situation might be the following: within the industrial sector, there are rules to dismiss workers, but the youngest are the first ones to leave. Therefore, this apparent generosity would seem profitable to a relatively small number of workers.

Our suggestions aim at correcting that situation, since I think emphasis should be placed, concerning the evaluation of the policy of the Government, as enunciated in 1970, on the fact that no effort was made to determine how the textile industry could allow by being integrated, the whole industrial field to benefit from its production capacity and the value of its products. That way, as I was saying a few moments ago, the textile industry could make exchanges, in terms of capacity, with the other industrial sectors. I think there is nothing to that effect in the policy enunciated in 1970.

As you can see, Mr. Chairman, I gave a very general outline of the present situation, and you would be quite justified to bring to my attention, from time to time, that some data are missing. However, that changes nothing to our desire to make a contribution and submit recommendations, namely to the effect that the application of the present policy should give more efficient results. Since the Government negotiates agreements with the other countries, I think it would be useful to give some consideration to the situations existing in those countries, which have been able to protect their own industries through strict negotiations. I believe everyone is aware that the Americans succeeded, through bi-lateral international agreements, in generally restraining imports; but to do so, they have discussed openly with their partners. Take the polyester for example. If it is decided to establish quotas on polyester imports in the United States, this product will be bought where it is possible to find it. It will be weighed and it is that quantity that will be allowed in. There will be no shuffling.

I believe it would be to the advantage of the Government of Canada, if not to imitate the USA, at least to try to determine how such a policy could be applied in this country. It might be a false philanthropic attitude to try to be generous and be considered throughout the world as the most open and charitable country. Such an attitude is certainly detrimental to the Canadian citizens who work in the textile field. As for the workers that must be dismissed, we think, because of the industrial reconversion we propose and the elimination of non-competitive industries, that some workers could be the victims of those new policies. We believe in addition that the early retirement will have to be accessible to them, thus requiring that some substantial amendments be made to the present legislation, particularly as to what pertains to lowering the age limits

from 54 to 45 years. However, almost abusive situations are to be feared in some cases. On the other hand, if you must take into account, and I cannot see how you would not have to, the labour mobility, and qualifications, and the alternate jobs that they will be offered, I can think of no other solution to the problem. Therefore, the early retirement will have to be accessible to many more workers. I think it is hard to find another job in that field when one is 45 years old, especially when some workers started working on a spinner or a weaving-loom at the age of 16 and that they have no other experience.

Another aspect of government policy deals with labelling. We suggest it is one of the basic aspects regarding not only the protection of consumers but also of jobs. Everybody knows that all kinds of goods can be imported. There are jeans or jackets embossed with the Canadian emblem which gives the illusion or rather the impression that they are made in Canada when, in fact, they are all imported. We also know that shirts are imported, ready-made, to which the label "Made in Canada" is simply added. We feel that the government has been remiss in this regard and it is high time to make up for it in order to protect Canadian production. It is fine to guarantee to the consumer that what he buys contains such proportion of synthetic fibres or of natural fibres but we should not allow the use the "made in Canada" label unless there is actually a certain content of Canadian labour and raw material. We believe this to be essential to solve the short and middle term problems we are now facing.

Moreover, and because of the workers involved, we believe that there should be a long-term planning and hence a possibility for industrial reconversion. But first a good planning is essential for these new structures cannot be the result or enforcement of philosophical concepts emanating, among others, from the economic Council, for which free trade is the answer. We have nothing against free trade but, before talking about it, we should first make sure that those presently employed can keep their jobs. As long as this aspect of the problem has not been solved, we believe that we should not venture farther away.

In the establishment of these new structures, because the workers are still the axis, it seems absolutely essential to develop a real manpower policy. The one followed presently brings no remedy. The Government takes ad-hoc measures as the need arises and thus creates the illusion that someone somewhere takes care of others. Ask the reclassified workers if they actually succeeded in finding another job as remunerative or more. Answers will be very disappointing.

So we need to stop and think of a real manpower policy. But, Mr. Chairman, this cannot be done in secret in offices where high policy is established. The elements of this sector must participate: the industries as much as the workers and government technologists. This is the only way to find solutions. Also, it may be necessary to create or try to specialize some sectors to extend our market. Is there anything to prevent us from establishing a kind of common market community in America? I am sure that this will not be achieved tomorrow. But if nobody mention it, we will always be restricted by the size of the Canadian population. Moreover, our tendency and willingness to open our doors to everybody implies that, in reality, the actual population of our country is never our actual market; it is still inferior to that.

Mr. Chairman, I thank you for giving us the opportunity to express our views. I hope that I have provided your Committee with a few elements if not all the elements which will incite you to ask relevant questions. We also hope that our brief which we consider substantial, will allow this Committee, in its proceedings, to continue, to develop the new line of conduct, which the preliminary report seems to indicate that the Canadian Government should follow with respect to the textile sector, while keeping in mind, as we do, our main objective to protect jobs. Thank you.

Senator Desruisseaux: Mr. Chairman, before we proceed with the questions which normally arise to clarify certain details mentioned by the witnesses, I would like to congratulate Mr. Dalpé and his group for having presented to us such serious and exhaustive work as I have received and studied, especially the main text and also the publication of this document.

I think that it would be to our advantage, the Government, its officials and ourselves, to review carefully the information contained therein. Inasmuch as I was able to see myself, I think there are very few points which I could discuss as basic questions.

I think that the work achieved will be rewarding. From the evidence presented to the Committee and which was generally met with our sympathy in many instances, I trust that we will achieve the constructive results which the textile industry has been waiting for for more than 40 years. At least I hope so.

Now I give to others the opportunity to ask questions and I will ask some myself later.

The Chairman: Any other questions?

Mr. Poissant: Mr. Chairman, if you will allow me, on behalf of the Committee, I agree with Senator Desruisseaux's comments. As I said in private to Mr. Dalpé at the entrance this morning, I think that the report is well-prepared, well-informed and above all honest and fair. I was pleased to read it.

I think it would be interesting to note that as part of my duties on this Committee, and to get acquainted with the problems related to textile, I visited mills in Quebec precisely with representatives of the textile industry. I asked among others questions on work relations between the company and its unions. I can say that I have received nothing but congratulations. I was able to note that labour relations were very good in the textile industry in Quebec. I think that this is all to the credit of the unions we have succeeded in proving in the field of textile industry that in Canada there is room for harmony when the employer and the employees want to maintain good relations. Mr. Dalpé, I think that your union represents a fairly large number of textile workers in Quebec. What is the participation rate? What percentage of the textile employees do you represent in comparison with the total number of textile employees belonging to a union in Quebec?

Mr. Dalpé: We represent nearly 19,000 workers of the textile and clothing sector in Quebec. I could not tell you exactly the present number of workers belonging to a union. The number could be about 30,000, or 32,000 members.

Mr. Poissant: That is about 60 per cent of union members.

Mr. Dalpé: Well, probably 50 per cent of the manpower.

Mr. Poissant: This being said, you have read, as you said, the report of the Senate Committee on Canadian textile problems. Are there points, according to you, that have not been covered in this report, or should there be any supplementary recommendations which are mentioned in your report but which were not recommended by the Senate Committee?

Mr. Dalpé: What struck me the most in the preliminary report of your Committee, is that you want to indicate to the government that it is time to revise its policy if the Canadian industry is to keep a more substantial share of the market. But we know now that there is nothing definite on this side. It's everyone for himself. If the industry succeeds in keeping 75 per cent of the market, it will be because it will have fought for it. The policy of the government will have absolutely nothing to do with it. In the report we have submitted we insist on this aspect. So there is consistency between our views and that part of your report.

There are also in our report some points that you have not yet mentioned, and for a good reason, since we had not yet submitted our own considerations. We speak particularly of this long term policy and of the need for the Textile and Clothing Board to be able to play its rôle in a much more efficient way, as it would not have to go through when producing its reports, all those interministerial committees which have only resulted so far in hampering the needs and the recommendations of the Board itself.

We are also speaking, and in a very concrete way of, the fate awaiting the workers, victims of the closing down of plants due to the imports, and the change in the eligibility criteria to a pre-retirement program. We strongly urge that the fate of the industry be entrusted to a tripartite committee composed of the government, the unions and the industries. This committee could participate in the review of the policy, and contemplate also what we called the reconversion.

I think that these points added to the ones you pinpointed could lead to a substantial improvement in the present conditions of this industrial sector.

Mr. Poissant: Mr. Chairman, may I ask more questions to the union representatives?

You have talked of labelling in your submission. I read in the Customs Tariffs Act, section 6 which provides that an imported product is subjected to restrictions as far as the use of the "Made in Canada" label is concerned. I am asking you: have you ever made any recommendations or suggestions to Canadian authorities to the effect that this section was perhaps not enforced for some items imported in Canada?

Mr. Dalpé: In a precise way, no. I can tell you however that during the last 15 days, we have had the opportunity to meet the officials of the Department of Consumer Affairs, to discuss this situation. We have been most surprised to learn that the "Made in Canada", as such, does not come under the consumers services but rather the Customs and Excise departments. At that moment, I made a joke saying that that is really the government, if you go to one department, they send you to another. So, if I were to go to the Customs, they would probably tell me that it depends on the Lands and Forests. This way, one goes from

one department to the other, to end finally I don't know where.

Then, we have underlined certain patent cases. I recalled among other things, an example which can illustrate how one can deceive everybody. I was participating in an open line show on CKVL, Verdun, some time ago, with the Director of the Engineering Department of the Textiles Federation, Mr. Yvon Georges. At one moment, a lady called to tell me that she was working in a men's store, on St. Catherine Street, with many branches, at that her work for the moment was to change the labels "Made in Hong Kong" for labels "Made in Canada".

So what about consumer protection. The explanations we are given by the Department of Consumer, are to the effect that it is a department which administers, I do not know how many laws, maybe 40 or 43, and which employs, I think, a few hundred civil servants, who must inspect, I don't quite remember, I think it is 275,000 fuel pumps, 487,000 balances a year. Then if you calculate the working days and the working hours of civil servants, you will easily realize that there is not enough people or that there are too many balances and pumps.

Mr. Godin: Mr. Chairman, if you will allow me to add something interesting but which may not be in the report, even if I have said it twice, I do not recall having seen it. It is also about labelling. Lately, it happened during the last two years a very well-known Canadian trade mark, Van Hussen, was sold to some Japanese interests who have their shirts made in Taiwan or in Korea and then bring them back here in Canada to put the name Van Hussen, of course, in evidence. You have at the bottom of your shirt, or hidden somewhere, "Made in Korea", written so small that you almost need a magnifying glass to see it. It is widely advertised in the papers "Very well known brand", but, of course, it does not say that it is a Canadian brand, because it is not one anymore but there is some confusion because everybody knows that "Van Hussen", is Canadian, or rather was, since two years ago. But, I do not think that the actual legislation provides anything for such procedure. Therefore, I think that would be an extremely important element of transfer, and the transfer of Canadian brands can be done more and more frequently, because companies go bankrupt or disappear, and all there is to do is to buy the trademark. The product is then put on the market, and they simply have to make the consumer believe that he buys a Canadian product while it is not made here at all. That is the recent formula they have found, which is more or less of the same type of that consisting of changing labels.

Mr. Poissant: Well, when you say there is no authority, it seems to me that section 6 of the Customs and Excise Act would enable, require, an important proportion of the product to be made in Canada. Then, there might be reasons to complain to the authorities, saying that such and such product is not substantially Canadian.

Mr. Godin: I would like to inform you that this has already been done. Moreover, I personally remember having been before a department here, several years ago. That is hard to check. It depends of the products.

For instance, with products like shirts, gloves, or the like, which can easily be put in bundles or piles up, it is difficult to check what part of the shirt is made, and what remains to be made. I have seen, and I can name the company, *Canadian Converters*, which received merchandise in big bundles: these were shirts finished at 80 or 85

per cent. But it takes experts to see such a thing, and the bundles have to be checked. They cannot undo everything. It is difficult to say what proportion of a piece of garment that is already on the way remains to be made, except by unmaking it, because it is made in the plant itself, and that pressing is quite an important part of the garment. But in the making itself, there was not much to add, except to press it, and maybe to add the buttons or change the collar of it, or something like that. The same thing happens quite often with gloves. They import linings, which look like old rags. The lining of some gloves, fine gloves, are quite long to make. So, they are imported in brandles, and the person who looks at them will think they only are old rags, but they are in fact glove linings which are used here, and which are made in Canada. And there are a lot of things like that. I believe that, of course, the legislation exists, but despite the fact that several complaints have been lodged with Mr. Jean-Luc Pepin, then minister of Industry, Trade and Commerce, whom I have met him on several occasions, with several other unions, it has never yielded any result. The law has never been amended. They have always told us that they would try to make that procedure more difficult, which means to apply the law more strictly, but in practice, things have not changed much.

Senator Flynn: I remember, Mr. Poissant, that the problem raised by Mr. Dalpé was not covered by this law, because the Excise Act applies to the entering of products, and that is when the checking of the merchandise is done; whereas the labelling is done in a store, or somewhere else, and that is a problem which lies with the Consumer Department. Of course, there should be some collaboration between the responsible of the enforcement of the Customs Act and the Consumer Department, because the problem raised by Mr. Dalpé and that raised by another witness are two different ones.

Mr. Poissant: You are right.

Senator Flynn: There is a problem when the product enters the country, and then another one when it is processed.

Senator Desruisseaux: I think that with respect to tagging as a whole, the methods we use here are generally rather out-of-date and a reviewing of this situation should be suggested. I think that, should be occasion arise, this step will have to be taken because otherwise this will bring confusion among us.

Senator Lapointe: According to you, what is the percentage of Canadians impressed by the sign *Made in Canada* rather than by the prices?

Mr. Dalpé: It is not easy to give a percentage. However, people trust what is made here. In the same way, some want to buy Canadian because the material is produced by Canadian workers. There is no doubt that the prices have an influence and we recognize it very openly. But we would not like to receive an unfair treatment as workers. It seems to us, and the government can try to say the contrary, that every time the latter sends people in trade mission, they come back with textile and clothing. Moreover, every time we have something to sell, well, they also come back with the same goods. This is the feeling we get. So, to avoid an unfair treatment, we think that from time to time Canadians could be legally offered butter and beef at a better price and from time to time, I will wear cheap clothes but with the wages I receive today, I could also afford beef and butter at a better price. I don't know if you

understand what I mean but I think that from time to time, if the Minister of Agriculture wanted to be a little bit more generous for the butter, bread and beef consumers in Canada, he should also take this into account. If I buy a shirt, I can wear it for six months and if I take care of it, maybe it will last one year but I also buy bread and beef very often.

Why does the government always concentrate on the same sector if the protection of the consumer is his goal? I think this is an hypocritical way of dealing with these matters. Let us be frank and give to everybody the same opportunities. This, and especially Canadian trade agreements with developing countries, among other things, should not always be done to the disadvantage of textile workers. Our problem is as simple as that.

Senator Flynn: In summary, what you are saying is that the government does not take the steps he could take to protect the textile industry because he wants to sell something else to the countries sending us textile and that is to the prejudice of the local industry?

Mr. Dalpé: That's right.

Senator Desruisseaux: In fact, as it was mentioned, the GATT agreements require exchanges and concessions that must be made to receive something. That is the policy applied and that is presently intended to be applied. However, according to me and many others, from what I have read in some studies, the GATT agreements seem to indicate that the textile sector is used very often to get advantages in exchanges. It is said that the textile employs a fairly large number of workers. The expression "labor intensive" is often used. But when we give what is labor intensive for us, we obtain in return goods which maybe are not as much labor intensive, that is we export goods manufactured here for exportation but that do not require the same efforts or jobs. Maybe this is an error.

Senator Lapointe: Do you think that Ontario is more inclined than Quebec to close factories which are not profit-earning?

Mr. Dalpé: In my submission, I noted that there is between Ontario and Quebec a transfer of a part of the sector, among others, of clothing. That sector seems to leave Ontario, substantially enough, and settle in Quebec. Again, these industries are very labor intensive. But conversely, the primary textile and more precisely the manufacturing of synthetic fibers moves from Quebec to Ontario. The explanation given is that in Ontario, the raw material is located near the industry. Thus, Ontario does not want to abandon that industry, but it wants to take advantage of a situation which allows it to attract industries much more promising than that it has presently. But it does not abandon these industries, it does barter and exchanges.

Senator Connolly (Ottawa West): Mr. Chairman, I would like to start by complimenting Mr. Dalpé on two counts. First of all, I believe that the committee has found that his performance here this morning has been very powerful. He has taken a very complicated situation out of a very long brief and, without reading a word, has given us a view of the industry, from the point of view of the workers and the unions, that is really remarkable, and I compliment him very highly. Secondly, I wish to tell him for those of us who speak English, perhaps almost exclusively, that the French that he uses is simply superb. It has

been a great pleasure to listen to you this morning, sir, and to hear the kind of diction that you employ, together with the deliberate and very clear manner in which you express yourself. I hope I am not overstepping the bounds of propriety when I say that.

You said that you have read a good deal of the evidence given before this committee. Therefore you know that we have discussed the agreements which can be made under the International Textile Agreement, particularly the longer term agreements, the five-year agreements, which have not often been resorted to by the Canadian authorities. Do you think that the negotiation of more of these long-term, five-year agreements, providing for voluntary restrictions, would be helpful to the Canadian industry?

Please reply in French?

Mr. Dalpé: I think I should have insisted on that particular part, for, logically, it is still a part of the policy we put forward, according to which a precise portion of the market should be set aside for the Canadian industry, to enable it to plan and know its needs in materials, and, especially in terms of manpower. It is obvious that the farther ahead one can see, the sounder planning will be. I have to agree with you on that, especially when you say that our chances are greatly enhanced if we use this section of the agreement, which, I believe, is included in Article 4, and which would allow us to spread exchanges we are ready to make with our partners over a longer period of time.

Senator Connolly (Ottawa West): I do not think this point has arisen heretofore. At least, if it has, I am not aware of it. Do you know whether it would be possible, under the international textile agreement, to conclude such an agreement with the United States? We have talked about agreements of this kind with developing countries. I gather that you complain at times, as does the industry, about floods or imports from American sources. What about an agreement of this kind with the Americans?

Mr. Dalpé: When one is close to a giant, it is often difficult to talk to him. We have to look either at his feet or at his head, and I have the impression that Canada, in its relations with the United States, has its eyes trained more often towards the ground than towards the sky. We object to that kind of policy. I believe it should be modified. It is about time we informed the Americans that if they have problems, we also have ours, and that it is not in their interest to hustle us, or to cause the commercial exchange balance to tip in their favour, especially in a sector like this one. I do not see what could impede, or should impede, the conclusion of a similar agreement with the United States. I believe that, in the brief we are submitting, we are trying to look at this question both on an immediate and on a long-term basis, while keeping in mind discussions which could deal with the sharing of much broader market than that which Canada has on its own, but which is nevertheless limited by the population we have to serve. I do not really see what could prevent the Americans from accepting such a market, of course, taking into account many circumstances which none of us knows about now but which will be revealed during discussions which will enable, in the interest of both parties, to outline a community of interest whereby to promote the same goals, while foreseeing that complaints such as those we have already made might be lodged again in the near future. But if, as times goes by, economic problems arise in the United States, we will then try to find the closest outlets for our

products. But we are one of the closest neighbours of that giant, and it is our door he kicks in whenever he wants to.

Senator Connolly (Ottawa West): It seems to me that the Americans can complain just as readily as we can about the disruption of markets from foreign sources. If we flooded the American market unnecessarily, if we could, then I think they would complain, just as they complain and take practical steps to prevent flooding from other foreign sources. So a proposal for restraint, if we needed an agreement with the Americans, might not be too difficult an agreement to negotiate.

In our preliminary report, which you commend, we talked about using the protective devices in the customs tariff and other federal legislation—both tariff barriers and non-tariff barriers; in other words, the imposition of duty and other restraints on excessive imports into Canada. I take it your feeling is that some of these devices in the existing legislation could be used more effectively, without changing the Canadian image of wanting to have the freest possible trade in all commodities.

Perhaps I could elaborate by saying that I think this is the way the Americans proceed. I take it that what you are advocating is that we should use these protective devices, when we have to, to reinforce the position that might obtain, for example, if we were able to secure these long-term bilateral restraint agreements.

Mr. Dalpé: If we take into account the countries with which we deal, and which we often implicated, under the cover of developing or under developed countries, we end up with products that are priced at a level which almost can not be compared to ours. It would certainly look excessive to hit these products with heavy tariff taxation, and this may not be a solution for us. We favour a policy which presently seems to have yielded results so far, if we look at the Americans, like you said, and which has enabled them to limit the importation from these countries substantially, in such a manner that it does not seem to threaten at all the industrial textile sector. They defend themselves very well because, in their negotiations, they have not forgotten anything, whereas it does not seem to be the case with us. We rely on voluntary restrictions. We accept quotas. Moreover, in the brief that was submitted to you, we relate a case where we have allowed a country to export here a certain number of shirts, but without determining it. Of course, it was for one year, but, during the first two months following the agreement, we received the entire quota. You can easily imagine the impact of such an important number of products on the market. It is useless to say that shirts of that quality are almost everywhere, and that those who make them in Canada do not have any outlet for their production, and it is therefore necessary to lay-off workers, etc. And we do not believe the imposition of tariffs, to go one better, to be the solution. I think we must decide in favor of a tighter negotiation, where it is possible to get an overall understanding of the problem and of our partners.

Senator Flynn: Furthermore, the application of these treaties should in fact control quotas, because, as you say, if we conclude an agreement but do not check if it is complied with by the importing country, then it obviously does not make sense.

Mr. Dalpé: You are right.

Senator Flynn: All things considered, the first goal would be to make the Government do what it pretends

wanting to do, to make it enforce the law, the measures, the treaties, and the negotiations it undertakes.

Mr. Dalpé: Exactly.

Senator Connolly (Ottawa West): What Senator Flynn says, I think, is right. It seems to me that if there were an agreement, say, covering a five-year period, there could be a clause inserted which would prevent the allowable imports from coming in over a very short period of time. I think that is a matter for negotiation. I think it could be done.

The Chairman: I cannot imagine two countries drawing up a five-year agreement for a sum total of so many pounds or a certain dollar value in merchandise.

Senator Connolly (Ottawa West): Exactly.

The Chairman: I cannot imagine anyone being that stupid.

Senator Connolly (Ottawa West): If the full authority of the law is invoked to police these agreements, and if the authority of non-tariff barriers is required to make the exporters live up to the terms of the agreement and prevent the flooding of the Canadian market, you are then faced with the problem of whether all of the imports that are to be restricted in fact should be restricted. Perhaps I could put it the other way. I realize this is a difficult question for you, but are there parts of this industry that are not viable and that are not likely to be viable and for which the protective devices available under the law really should not be invoked?

I realize that from your point of view every company creates jobs and you want to preserve every job you can. More power to you. However, the fact is that there may be some parts of this industry that are not in the category where these protective devices can be used.

Mr. Dalpé: Honestly, we are not trying to protect what is not worth protecting. We even say that what must be eliminated will be eliminated. However, it would be appropriate, in all this, to protect the people who are at the end of the line, those who hold the jobs. Therefore, we ask that amendments be made for those people, concerning their condition and their eligibility to what is called, in the bill C-215, preretirement. As in all the other industrial sectors, some companies should not be there at all. They offer cheap salaries and, as a matter of fact, they take advantage of the people working for them, while promising them or hoping that the situation will improve. Employees are told that the circumstances will get better, and that they will benefit from it, they are thus kept dreaming. I think such industries should definitely be eliminated. However, the other industries that are considered viable and competitive should be provided with a minimum of security. If we take into account all the investments referred to earlier, which are kept dormant by the various company managers, I think we can consider that they represent thousands of jobs that could have helped abate the unemployment crisis; those investments are not made because everybody is afraid of what might happen tomorrow. The policy of the Government being too vague, lacking in both aggressivity and certainty, nobody wants to take chances. The workers are the only people that are asked to run such risks.

The Chairman: Senator Molson.

Senator Molson: Mr. Dalpé you referred in your statement to the policy adopted by the Federal Government in

1970. Did you find, at that time, that the policy was strong and good enough, or do you feel that it has not been applied the proper way since, that the Government has not followed the policy enunciated in 1970?

Mr. Dalpé: We simply say that the policy enunciated in 1970 by Mr. Jean-Luc Pépin, who was Minister of Industry, Trade and Commerce at the time, did not give the results anticipated. We believe, of course, that the Government did not implement that policy the way it should have. It depended on a Commission established to hear the complaints. But the provisions of that legislation refer to prejudices. According to me, prejudices can be both apprehended and felt. No difference is made between those two forms of prejudice. Consequently, everyone who wishes to make a complaint has to address himself to the Commission who, in turn, will determine whether or not there was prejudice. However, there are considerable delays between the moment the request for inquiry is made, the inquiry itself is conducted, the research is made by the commission, the report is submitted, and goes the round of Departments because several are concerned, such as the Secretary of State for External Affairs, even if I do not know how come he is involved, the Minister of Labour, The Minister of Consumer and Corporate Affairs, the Minister of National Revenue, and the Minister of Environment. I do not know if the Minister of Fisheries has a word to say in that, but it could be. If we go deeper we will probably find out that some deputy ministers are also involved. Thus, there is plenty of time for prejudices to worsen before the Minister can reach a decision after being presented with a report—and, then, it is too late. In all, even if that policy intended to achieve excellent goals, it had none of the anticipated effects.

The Chairman: Senator Macnaughton.

Senator Macnaughton: Thank you, Mr. Chairman. Mr. Dalpé, your Green Paper contains a lot of interesting data. Could you confer to page 24, paragraph 7:

In short, the most active sector, that of the primary textile, stands to suffer the most from the imports: labour has been replaced by money.

Could you be more explicit?

Mr. Dalpé: What we mean by that is that the sector of primary textile tends to engage itself in production, by using man-made fibres. Wool and cotton are not used anymore. Fibres are produced from materials such as hydrocarbons.

Massive investments are required to operate or start such a plant. Through technology, we have succeeded in having machines do the work that used to be done by workers. Consequently, these are industries which tend to replace employees by using capital. In some cases, it costs up to 300,000 dollars to create a job. Such an incredible amount of money cannot be spent every day on new jobs. Therefore, the jobs offered in those industries are automatically less numerous.

Senator Cook: I want to congratulate the witnesses on their brief, which I think is an excellent one. I apologize that I have to rely on the English translation. I refer to page 145 of the brief, where it says:

Even more frustrating, in view of the continual erosion of the Canadian market, is the fact that Canada is not even using all the means at its disposal within the framework of existing international agree-

ments (GATT, MFA, . . .) Canada's policy differs from that of other industrialized countries in that it is much more liberal. For example, in May 1975, only 6.5 per cent of textile imports were subject to restrictions in Canada compared with 70 per cent in the United States. In 1969, before the policy was applied, the restrictions covered 15.4 per cent of imports, which says a great deal about the efficacy of the present policy. Yet in his speech introducing this policy in May 1970, the Minister, Mr. Pépin, had declared that Canada should not be alone in taking the brunt of a protectionist world. In spite of such statements, that is exactly what is happening today: the United States, Japan and the Common Market are ready to make concessions with regard to their tariffs within the framework of GATT, yet they retain effective control over their imports.

Canada has such a timid attitude that the surplus over and above the quotas rigorously imposed by Americans and Europeans is increasingly disposed of in our country.

The question that interests me is directed to the matter of quotas. Could the witness help us as to how these quotas are imposed? I know they are government policy, but who has an input into saying whether the quota should be 70 per cent, 30 per cent or 20 per cent? Are they discussed after being imposed? Has the consumer any input in the matter? I have a feeling that quotas might well be the answer in this country too.

The Chairman: You mean, is there consultation?

Senator Cook: Yes.

Mr. Dalpé: If I had the answer to that question, I can assure you another chapter would have been added to our brief. But, those are questions which cannot be asked, because right away we are faced with what they call confidentiality. They say it is confidential. Even though we think that the Textile and Clothing Board has come out with recommendations that the quotas should be such-and-such, that has not been the case when it has been proved to them that serious prejudice was caused by imports coming in after discussions, and probably following agreements between Canada and the other party.

The Chairman: You mean over-shipments?

Mr. Dalpé: Probably.

Senator Cook: It is a very interesting problem.

Mr. Jean-Noel Godin: I would like to say something on this subject. I think, that perhaps now, the Government's policy is to establish criteria once the damage has been done, to impose the restrictions, and the measures are never preventive, and now, they are not long term measures either. In other words, when very high customs duties were imposed in the shirt industry, for instance, up to \$2 per shirt, it was when the industry was almost dead, instead of seeing ahead. I think it should be the responsibility of the Textile Board to establish first, the quantity the Canadian market can absorb. The amount which should be produced in Canada, then the quantity which should be imported, and it should be coming after. Because, if we want the industries to thrive, and I can cite a large number of industries, a while ago a question was asked, there is a large number of clothing industries which now have gone out of business, which have disappeared, pre-

cisely, because of the lack of government policy. In spite of Mr. P  pin's policy, I was there when it was developed, I was in his office. He presented us the final result. At that time the three big unions were represented. I was one of the representatives, he explained to us that it was to prevent the collapse of the industry, it was to condition it, it was not what it did. It is not in that way that they implemented it. They implemented it, I repeat, just when the industry was on the verge of collapsing. At one time, in the shirt industry, you remember, it was made public. The Textile and Clothing Board almost had the business of one of the biggest manufacturers in Saint-Romuald closed. There was Canadian Converter who went bankrupt, then, Van Hussen. You saw all those industries on the verge of ruin, all of a sudden, then when they saw they were on the verge of bankruptcy, they imposed for a while a customs duty of \$2 per shirt. Instead of forecasting, and I think it is still in the act, now, it is possible to provide for what should be viable, what part of the market Canadian manufacturers can expect to have. Then, in terms of those factors, there could be investments and the industry could carry on.

Now, there is no policy. There is a policy, there is a written legislation that it has been a policy to be applied to each situation and simply temporary. I think, the implementation I experienced in plants where I had to bargain, I bargained in the clothing industry across the province of Quebec, it is always the same story. From one year to the next, they never try to find out what quantity of clothing will be imported from foreign countries, and obviously in what situation the workers and the employers will be the following year. It is absolutely unpredictable.

Furthermore, when there is a period of depression, as we have one now throughout the world, the trend obviously, is to help the under-developed countries and even perhaps more, the United States. It can be noted in the report, they indulge in dumping, this is what they do in Canada now, because it is extremely easy. They become aware of the quotas, when it is too late. I remember manufacturers, and government representatives I met several times in various departments, when they realize the damage has been done, because at a certain time, let's say they had anticipated that there would have been 1 million dozens or 2 million dozens of shirts which would be imported to Canada during the year, but at the end of it they notice that it is 3 million shirts which have been imported. Then they realize that the industry is truly on the verge of collapse. And then they hurry, they impose very high customs duties. Then there is a levelling off, the situation becomes normal again. But, once the market seems stable again, they drop the customs duties. There is no longer any policy to say: "No, it should not go beyond this criterion during the year". This is the problem, it is not constant, it is simply occasional. It is a great pity.

Senator Connolly (Ottawa West): We have had evidence to the effect that the Textile and Clothing Board has not the power, the jurisdiction to phase out, over a period of time, the imports which are disrupting the Canadian industry. We have used the expression here many times—and you have read the evidence that we have adduced here—that the Textile and Clothing Board is really designed to shut the door after the damage has been done. This is what you are complaining about.

Mr. Godin: That is exactly it.

Senator Connolly (Ottawa West): What we have been trying to find is a method of delineating the requirements of the Canadian market and the ability to absorb from abroad, from developed and developing countries. We find that about the only device that exists now is the opportunity under the International Textile Agreement to have these long-term voluntary bilateral restrictions policed by the provisions of the Canadian customs law, both the tariff and the non-tariff items in that law. Do you see any other way that a flow of imports can be controlled?

Mr. Godin: But I think, that first, the Textile and Clothing Board should have more power than it has now, in order to be able to establish what the import quotas should be for goods entering Canada in all areas of textiles and clothing.

Senator Connolly (Ottawa West): Excuse me for interrupting, but are you suggesting that the Textile and Clothing Board should have an advisory capacity?

Mr. Godin: Yes, that is what I am suggesting.

Senator Connolly (Ottawa West): An advisory capacity with reference to the negotiation of long-term agreements?

Mr. Godin: You know, we are just thinking out loud, all of us . . .

Senator Connolly (Ottawa West): Speak in French, if you wish.

Mr. Godin: We are just talking, just expressing our thoughts. According to my experience with that Board—I had to appear before it quite often—and as you said, it is precisely in difficult cases. But, I think it should go further in order to establish what should be done, and it should proceed as it does now by holding of hearings for union representatives and people concerned with that industry. Then, recommendations should be made to the Government to enable it to establish the imports policies to be followed. But, in addition, there should be something new, which does not exist right now, that is real supervision which would be carried out not a whole year later or though various departments of statistics once they have received all the information and everybody has gone out of business—by another agency which would establish that the importation of one million shirts has been authorized for the year. Furthermore, as this figure would be known, imports should be checked on entry at the customs, so that it would be known immediately when the million mark was reached, at which time all shirt imports would be halted.

Listen, I don't know, I don't have a final solution to the problem, any more than anybody else. Furthermore, I am not an expert in this field. There are people who know this question, and they may have better solutions than I. However, I think it is an essential solution because the quantity of goods which have been imported to Canada is known only when the industry or the market is flooded. In my view, that is really an absolutely inconceivable shortcoming. On the other hand, in the United States, they know immediately. I don't know what method they use, but it does not take them long to know exactly the quantity of goods which have entered the country.

Senator Flynn: They are stopped on entry.

Mr. Godin: On entry, exactly.

Senator Flynn: I would simply like to know, for instance, in a case where the Textile Board notes that a country exceeded its contract, its quota, and when this has been proved, are there any other penalties besides imposing customs duties? For instance, will they tell that country that in view of the fact that it exceeded its quota, in the future it will have to . . .

Mr. Godin: You are quarantined, no. To my knowledge, mind you, I do not claim to be a great expert, except that I have often had to complain about those situations. But in so far as I know, they realized it long after the damage had been done, and to my knowledge, what they did was to stop imports by saying: those items will no longer enter, or they imposed absolutely prohibitive customs duties. Those are the two solutions which come to mind, immediately, in answer to your question. They have applied two methods: either to stop the imports completely, or to impose a prohibitive customs duty.

Senator Flynn: You submit that in most cases, those remedies come too late.

Mr. Godin: Indeed. And, precisely, a large number of industries have gone completely out of business, they were unable to survive. In fact, in the clothing industry, it is usually the businesses which have marginal profits, and I am talking specifically of the clothing industry, I do not know the textile industry as well, but, it is the industries with marginal profits and which do not have important reserves, which are ruined as soon as there is a crisis which lasts one or two years. Furthermore, this may be news to you, but take a big company like Hyde Park in Montreal, dealing in men's clothes, there is talk everywhere of their being bankrupt. They employed 1,000 people. So, it is quite serious. Take Ruben Brothers, which we mentioned earlier; they had 1,000 employees one year and a half ago, and now 700 only. I could run down the different plants that way. In the shirt industry, in the province of Quebec, I think they had approximately 6,000 employees, and they are now down to 4,000. That's the way it is. The plants do not all go bankrupt, but they reduce their staff, and the manpower is temporary.

Senator Desruisseaux: Mr. Godin, this very morning I learnt that Versatile Knit, in Cornwall, is closing and becoming exclusively an importer, with a licence. I have not checked the information, because I have not had time.

Mr. Godin: It happens, Senator, in the glove industry, all the time. There was a glove industry in the province of Quebec, five or six years ago, even a year ago. It employed between 1,500 and 2,000 workers, and today it is down to 600 or 700. The cloth glove, the cotton glove industry has completely disappeared. All those items are now imported. Fine gloves for women have almost disappeared. There remains a few plants, but almost all those items are now imported. All we have left, are plants making working gloves and special gloves for different activities, specifically for security purposes. Those are the two kinds of gloves which are still made in our province. The rest, we can say that, in general, they have disappeared. The very fine gloves for women, I do not mean leather gloves, but the fine gloves, they are no longer made in our province. They are all imported.

Senator Desruisseaux: Mr. Godin, to emphasize a point, I do not wish to prolong the discussion on this point, the DG, Dominion Glove . . .

Mr. Godin: Yes, I know them very well.

Senator Desruisseaux: Fine, they have reduced their staff to almost 25, or to approximately that figure, that is to say just barely enough to keep the plant going, and the importation of textile is the cause of it.

Mr. Godin: It is because they were chiefly making cotton gloves, and we no longer make them.

Senator Flynn: And to control the entry.

Senator Connolly (Ottawa West): Senator Molson reminds me that the sanction for such a policy would be the provisions of the Customs Act, to which reference has been made in our preliminary report.

The Chairman: Well, the sanction would be to establish an import control list.

Mr. Godin: That is right.

The Chairman: The advantage of an import control list, which we recommend, is that you cannot thereafter import any product on that list without an import permit. So there you have the ability to monitor the products that are coming in, and it has been the lack of that ability which has been the great defect in the quota agreements made to date, because the products are not necessarily on the import control list and, therefore, it is only months after the products come into the country that they catch up with them. By that time they have been distributed through the trade. For that reason enforcement has become a sort of hit-and-miss policy. But part of our report is this recommendation.

The Chairman: Mr. Dalgé, what would you do if we said to you, "If there is anything that has been omitted from our report, we give you permission to write in whatever paragraphs are necessary in order to bring it up to the degree of perfection you want."?

Mr. Dalgé: Well, you write it down and just call on us. We should be around.

Senator Desruisseaux: In the meantime, Mr. Chairman, the GATT arrangements are being made and there has been no consultation whatsoever with the industry.

The Chairman: That is right.

Mr. Godin: Mr. Chairman, I would like to add to the two points raised by the senator, a third one extremely important I believe, that is the control of goods at the very point of entry. I do not want to take too much time, there is much to be said.

Senator Connolly (Ottawa West): Yes, that is implied.

The Chairman: Well, we have made an offer to you which apparently is more than you have had from any other source up to this moment.

Mr. Godin: Yes.

It is true. Yes.

The Chairman: Honourable senators, I think we have made a complete development of the points in issue in this brief. Senator Connolly, however, assures me that he has a very small, little bitty question to ask. We will be able to see what his definition of "small, little bitty question" is!

Senator Connolly (Ottawa West): You are the experts. That is why I want to ask you this question. Is it fair to summarize what you say by suggesting two things. First,

that the terms of reference of the Textile and Clothing Board should be enlarged to give it an advisory role? And, second, that the authorities should be more aggressive in negotiating long-term restraint agreements on a bilateral basis?

Mr. Godin: It would be a beginning.

The Chairman: Mr. Dalpé, we want to thank you and your colleagues for coming today. You have been informative, and I am sure what you have said will be useful to us. Thank you very much.

Mr. Poissant: Mr. Chairman, perhaps we are lucky that the Senate still exists.

The Chairman: Honourable senators, for the next presentation we have the representatives of the Canadian Federation of Clothing Inc. I understand that Mr. L'Heureux, Director of Policy Services, will make the opening statement. With him are Mr. Hervé Menard, President of the Confederation, and Mr. Denis Martel, advisor to the union.

Mr. André L'Heureux, Director of Policy Services, Confederation of National Trade Unions: Then, Mr. Hervé Ménard, President of CNTU Textile, Clothing and Shoes sector.

Mr. Chairman, first I should like to put on record that we are not employers but are from the Confederation of National Trade Unions. If I may be permitted, I will give my opening remarks partly in English and partly in French. I should say at once that I may have to excuse myself early, because I have a meeting with the Minister of Industry and Commerce in Quebec City. In fact, I will have to leave in a few minutes.

Mr. Chairman, I have read the proceedings of the committee and I wish to congratulate and thank the Senate for undertaking this study.

Together with Mr. Dalpé and Mr. Godin, my old associates who were formerly with the CNTU, I had, in 1969, helped to organize a seminar on the future of the textile industry. Hundreds of delegates from the unions and from industry as well as the ministers of Quebec and Ottawa were present.

I was glad to hear Senator Connolly raise a question which I wanted to touch on briefly this morning which perhaps the population is not clear on generally. Over the past several months I have had the opportunity of meeting with different groups of people, including university professors and union leaders, textile workers and reporters. In each case I put the following question to them to see what their response would be: "In 1974 we imported solely in textile products in Canada for a value of over \$1 billion. From which countries do these products come?" That is the question I asked people to respond to spontaneously, without preparation. Do you know that in every case the answer was the following: "Korea, Japan, Formosa, Asia and the underdeveloped countries." That was the answer given to us in all cases. Now, if we look at what is said in the press, even with respect to the proceedings of your committee, and if we consider the impression gathered from government statements, even including those of the Honourable Mr. Jamieson, the impression is still that the problem with textile imports stems from those imports coming from the underdeveloped countries.

I think we might agree that this is what we could call the myth, or the prejudice, or the belief, of the vast majority of

Canadians, even those Canadians who are supposed to be well informed. But when we look at the statistics we see that in the year 1974, 74 per cent of all our imports came, not from the so-called undeveloped countries, such as those in Asia, or from what employers refer to as "state controlled" countries, but from the most developed capitalist countries of the western hemisphere, the major supplier being the United States, with 54 per cent of the \$1 billion coming from that country. If you add the EEC in Western Europe, plus the United Kingdom, you have a total of 74 per cent, which, in the first months of 1975, according to the latest statistics by the Department of Industry, Trade and Commerce, increased to 77 per cent.

The Chairman: I thought it was mainly polyester that was coming in.

Mr. L'Heureux: That is total textile imports, excluding clothing.

The Chairman: But the chief product that came from the United States in 1974, I think, according to the information we have had, was mainly polyester.

Mr. L'Heureux: It is polyester, but there are also other types of fabrics. There is cotton, obviously, and there are all sorts of things such as nylon, et cetera.

As Mr. Dalpé said in one of the answers he gave this morning, it is time the Canadian government attacked the real source of the problem that exists for the Canadian textile industry. Obviously the low prices of products coming from Asia and other countries is a practical problem, but let us nevertheless inform the public—and I hope the press will do this too—that the real cause of the chaotic situation which has existed for decades in the textile industry is due to imports from the United States and Western Europe.

There is one other thing I would like to say, which is as follows. There is a lock-out now in progress involving 2,000 workers employed by Celanese in Drummondville and Sorel. We have published a full study on Celanese Canada, and if you would like copies of it, you may have them, I think it is unacceptable that a company employing 6,000 workers, of which 3,000 are in Quebec, should pay salaries which are from \$1 to \$2.50 an hour lower for the 3,000 Quebec workers than those paid to the other workers employed by this company in Alberta and Ontario. This is the situation for the entire textile industry in Quebec. If you compare the average salary of the synthetic products section, for example, you will find a differential vis-à-vis the rest of Canada, and especially with Ontario, of \$1.17. The textile industry, perhaps unfortunately, is very important in Quebec in terms of manpower, and if you add the shoe industry this means that one out of every four Quebecois is employed by either the textile industry, the clothing industry or the shoe industry. This sort of differential has existed for decades, and is quite unacceptable, though it has been tolerated.

This, Mr. Chairman, is my initial statement. I thank you.

The Chairman: Now Mr. Martel.

Mr. Martel: Mr. Chairman, Mrs. The President of the Senate, Messrs the Senators, the introduction to our submission explains in fact, that submission as it stands now was prepared, with the cooperation of all the workers we represent in this sector, in answer to the Economic Council of Canada which, in June 1975, talked about free trade and the opening of the Canadian market to a most profit-earn-

ing industry. Therefore, it is to be hoped that following this position adopted by the Economic Council, people began to react. We consulted our people and got prepared. As it is said in the introduction, we think that the discussions and the studies made at that time might be useful to the Committee studying the textile problem, and of which we have followed most of the hearings. I would only like to give certain things, data included in the paper on the whole.

What first surprised me, and even those who studied it, was to realize that, in fact, the big importer in Canada, in this field, is the United States. That is what Mr. André L'Heureux told you earlier.

Now, imports, of about 900 millions in 1974, come particularly from European industrialized countries and from the United States. It has also been noted in our studies that, among the low wages countries identified, the United States, and we can recall the intervention of Mr. Perone of the Dominion Textile who gave you the wages paid in the United States, offer salaries 25% lower than ours and are therefore a low wages country in the textile sector.

It has also been noted by Dupont of Canada that, in the United States, companies are often multinationals and some of them are located in Taiwan for one, that is to say that there are American subsidiaries in other countries who send us goods in the textile sector. It was also said in the hearings, it was I think the representative of the Wabasso Company who said it, that there were some problems in that, at times, it creates a vacuum in Canada. It has been said too that the European Community produces much of the textile in certain sectors, sheets, etc., and that the European market being at a time, more profitable, they made their sales out there. They stopped then to sell in Canada, which created a vacuum here. After that, Canadian companies were blamed for not being able to take the market back. It had been said that it was difficult, on such short notice, to be in a position to supply the Canadian market. What happens I think, and this must happen in all fields, is that the American giant near us has mass production with lower wages which often results, in a mass production more profit-earning. There are the custom tariffs of 20 to 30 per cent. So when there is a hole, a vacuum in the Canadian market, the first to enter are the United States. You will find it in the figures on polyester. In 1975, during the first three months, 90 per cent of imports came from the United States in this sector.

Also, from what is said to the senatorial Committee, and it also for the employers and those who gave evidence before, having read the discussions, I see that the American problem has not been dealt with very often. But the answers given to the questions asked by the Senators went a little bit astray, the problem was never identified. They said that restrictions were needed for identified countries but no one asked restrictions on the European Economic Community and the United States. However, when there are economic restraints, the better place to go for dumping is Canada. There were a few such hints. Tables and charts have been shown to you and each of them listed all the other countries except the United States.

Last week, I had to negotiate with a firm, a Dominion Textile subsidiary in Montreal and in that half day the general manager has put forward the American imports as does the Senate study on textile industry. I took the opportunity to reproach him with not having revealed the problem to the Senate and to ask him to deliver the message and to make representations to his company. Companies

like Celanese Canada, Dupont Canada, that are American subsidiaries may understandably not dare to speak against their parent company when they are not in agreement. Dominion Textile is sure to set foot in the United States. There obviously is a consensus to intervene through Mr. Armstrong. On the whole, he has done it for them. But, I think that this American problem had to be identified. I think that the senators should become aware of that problem, because what has been asked—and it has often been stated—is a percentage of the Canadian market to gain a measure of profitability and stability to invest. But if we effectively had 70% of the Canadian market to protect and if the United States did not ask for anything in compensation for American imports and the other European capitalist countries, I think that, in fact, there is no need to deal with the other problems. If all the other countries were excluded from the import opportunities in Canada, the Canadian industry would certainly have 70% of the market. Reference was even made to tariff barriers which were not dealt with. The protection of quotas was more desirable and imports from cheap producing countries could come in at the Canadian price so that the consumer would not have to pay too much.

There are also other things which must be stressed here in this Senate Committee; they are interesting and I would like to come back to them.

Looking at the imports data, for us, you would think that the Canadian economy (in Quebec and Canada) is somewhat squashed, to say the least, by the American imperialist. As far as the percentages of imported quantities of fibre, rayon, viscose and acetate fibres are concerned, the United States accounted for 75% in 1974; for acrylic fibres in 1974, United States 85%, England 3%, Japan 6%, West Germany 3%, the other countries 3%. In five years, the United States have, at an amazing pace, taken control of 90% of that market; 47% in 1971, 90% for the period from January to September 1975. For nylon fibres...

Senator Connolly (Ottawa West): These acrylics and these other products of which you are complaining, are they made in Canada too?

Mr. Martel: Yes, senator, they are made here too.

Senator Connolly (Ottawa West): But we import 90 per cent of our requirements?

Mr. Martel: Ninety per cent of the importation.

Senator Connolly (Ottawa West): What percentage of our requirements would that be?

Mr. Martel: Generally, we say that we occupied about 44 per cent of the Canadian market.

Senator Connolly (Ottawa West): I see. So it is perhaps 56 of 58 per cent?

Mr. Martel: For polyester fibres, 90% came from the United States in 1974, 1% from West Germany and 9% from other countries. In 1974, 90% of nylon fibres were imported from the United States and only 10% from elsewhere. I am talking about synthetic fibres, and as was pointed out to the Senate Committee today, two-thirds of all fibres whether clothes or material, are synthetic. An advanced industry is developing in that area.

Now, we all remember Miss Caroline Vesti from the Research Institute who appeared before the Senate. It was rather difficult for her to defend her position which I

believe, was essentially that of the Economic Council of Canada, although she criticized industrialists for sticking together in the hope of saving the industry as a whole instead of helping or asking for real help for those who should keep their trade. She also talked about the people who work in this area and told us that the textile industry ranked 16th, 17th and 18th among industrial sectors in Canada. It is not the worst position, so I suggest it is still available and economic activity.

There are other things that Mr. L'Heureux has mentioned before and I could give you some figures on them.

We have heard about transfers of industries namely from Quebec to Ontario where incomes are actually higher and that in Quebec, workers are not always ready to accept lower salaries, this is why we should have to decide what kind of policies we will adopt. Does Canada really want to place out its textile industry? This is apparently the conclusion to be drawn and if better salaries are not forthcoming it would be better to disappear. However, the 1961 figures show that employment has decreased in Quebec while the job situation in the new industry now stands at 161% in Ontario, for the textile industry. There was recently so much confusion about these datas, that the minister, M. St-Pierre, told us that everything was fine in Quebec because he might have included the knitting industry which has moved into Quebec.

Senator Desruisseaux: Mister Martel, how do you define the knitting industry? Somebody was just asking me that question.

Mr. Martel: It includes underwear, and more specifically stockings, men's socks, that sort of things, secondary textile activities, they are partly knitted.

Nowadays, the advanced industry namely that of synthetic fibres has moved to Ontario. Of course for you Ontario is still Canada, but for us in Quebec it creates problems and resistance.

Senator Asselin: Quebec is still in Canada isn't it?

Mr. Martel: Yes, it still is. This is why workers are aware of the rules of the market economy. They understand problems created by monopolies and researches about production sequence. You have dealt with the question of productivity in your proceedings. In any case, in terms of worker productivity, I think this is an industry with the highest level. It is not new. It is due to reviews by the companies, to work incentive plans to premiums within the textile industry. Obviously, the performance is almost 100 per cent. So, we are talking of human productivity at its maximum, and still productivity, work organization and technology progress all the same in the advanced sectors of the textile industry.

There is also another problem experienced by the workers: an industrial disease particular to textile which has been found in the cotton plants, but there is not much research being made on the subject. The workers in this area, have problems all the same. There is also regional economic disparities, chronic unemployment, and the closing down of plants. The workers are aware that one of the main effects of the tribulations of the Economic Council of Canada is an increased opening of the Canadian economy to the world of the profit-earning capacity. Now, it is quite possible that the position of importers, when they will come to see you, matches approximately the position of the Economic Council of Canada, because they are interested in having a wide-open importation market.

Now I am speaking of something which was also mentioned by Mr. Armstrong, of the Canadian Institute of Textile, they is the importance of the existence of the textile industry in Canada. You have been told sometimes, of the complete disappearance of an industrial sector. You have even been told that at one time Japan was obliged to increase its prices and that the Canadian industry was more competitive, that the prices may have been less in the Canadian industry at a given time. This means that if we were completely dependent on other countries, Canadian competition might cease, and it is possible that the consumer—it is pointed out quite often that he has to pay more, in fact, if he buys Canadian—but it is not sure that in the long run it would be a good solution even if that were exactly what happens.

So, essentially, we agree with an increased protection for the Canadian industry, even if it is the same position that the employers adopt in that area. However, when problems arise, I think that, if a protection is set up through a tariff barrier, the taxpayers, the Canadian consumers pay more for everything they buy in that area, where the textile industry, like many others, gas often been subsidized directly for the purpose of installing machinery, in every aspect covered by assistance to industry in general; the Canadian industry has also had its share of direct subsidies, which are also, I think, drawn almost totally from taxes paid by Canadian citizens.

This, when shut-down problems arise, you will see it by our positions; it is at the same time considered as a protection for the workers. If the country subsidizes, supports the industry, with which we all agree in order to protect employment, I think that when they decide, on their own, without consultation, to take decisions to shut down plants and lay off people, we should have our word to say. Moreover, these steps should not be taken too fast, so that we have time to see what is happening.

You remember that Mr. Arkell, from Associated Textile, has come here to speak about the relations with the unions, and that there was a reclassification committee that was more or less efficient. That company told you also that they had not at all consulted the government before taking a decision, and that when they had taken it, they thought that there was nothing to do. But afterwards, when the department came into play, there was actually nothing to do. Some years ago, Louisville Spinning, which is a plant branch, has been subsidized by \$55,000 in machinery, but now, the plant is closed and those machines are in the United States; that is what happens.

Now, there is also what we want most I think, independently, that the Canadian market should be protected by the textile industry, that it is not sure that it will ever overcome the situation when there will be no problem for the workers in these industries, because, I think, within the present system, which is very free in certain respects, that there are problems, and some companies buy others to close them. We know all these things. Let's say that the concentration of the industries will go on and that, actually, there will be problems for the workers, even with a protected market. Then, in our recommendations, we insist on the protection which must be improved for the workers who have to deal with these problems.

With respect to regional disparities and industrial development, we have seen what is happening in our field and that most of the development is in Ontario. The Senators may have noticed this situation, and the workers certainly did: quite often, in some areas where the industry

is located, it is also integrated in the local society and political institutions. The development of the secondary sector, which paid higher wages than the textile industry, was often impeded. Even various developments which would provide workers with the opportunity to escape this low income situation were impeded. The Wabasso company also told us that it had reorganized its operation in 1970. At that time, the policy was known, at least its implementation, and it was potentially vigorous and intelligent. Wabasso reorganized its company by gearing itself for the policy which was in the making, that is by switching over to the most profitable sectors. It reorganized itself and laid off people even before the Federal Labour Act or Program which accompanied the establishment of the Textile and Clothing Board allowed pre-pensions and pre-retirement. The company admitted openly that it had done so before the legislation were enacted. So, concurrently with the policy, there was no protection for the workers involved. This was the company's decision, maybe a good one. Very often, companies take decisions before protection is guaranteed for the workers.

As mentioned earlier, the textile industry is subsidized both directly and by Canadian taxpayers and consumers who pay higher prices in that sector. We have a list of the subsidies granted to companies. I did not add up the grants on this list; does someone have the total? Anyway, we have here a list of 25 to 30 companies in the textile sector which received subsidies for some small businesses for instance \$10,000 in Magog, at Consolidated, in Montmagny, \$1,312,000. In fact, this is a sector where assistance was granted.

Senator Desruisseaux: Did you make any calculation? What does that imply, precisely?

Mr. Martel: Well, generally these subsidies are for equipment. The Government provided different data. The money was granted for buildings, investment for buildings, and machinery. So, sometimes they apply only to buildings, and sometimes only to machinery. They are supposed to create jobs.

Senator Desruisseaux: Did they actually create jobs?

Mr. Martel: Jobs were created only in areas where there were grants. As mentioned earlier, more new plants have opened in Ontario than in Quebec. In fact, shut-down problems are concentrated in an area and that is where the new industry settles. In a specific sector, in terms of the overall work picture, it is not always the case.

Senator Connolly (Ottawa West): You said that wages in Ontario are higher than they are in Quebec, on the average. How does the average level of wages in Quebec compare with the average level in comparable sections of the textile industry in the United States?

Mr. Martel: The province of Quebec is possibly on the same level as the United States, and Ontario may greatly account for the 25 per cent wages average in Canada, which is a higher percentage than in the United States. So, while there is a considerable difference in Ontario, in the province of Quebec, wages are possibly at the level of those in the United States.

Senator Flynn: But then, consequently, Quebec products can more easily compete with those produced in the United States?

Mr. Martel: It would be normal or, say, easier. I think that the essential difference is that since 1961, Ontario has

statistically speaking, reached 161 per cent on the employment index. This is because new investments are made, I believe, in the highly technical sectors where there is less labour. In fact, they are new investments. In Quebec, I think that, in 1961, there were more textile industries. However, they are older mills, although there are also new industries. The textile industry has moved out West because of raw materials.

Senator Flynn: The differential between Quebec, Ontario and the other provinces does not necessarily come from the same production. It must be the result of specialization or a different way of producing.

Mr. Martel: In the case we mentioned, there is, of course, a current problem, namely a lock-out; for the same companies, the same operations, there is a difference.

Senator Flynn: Is exactly the same thing happening in Quebec and in Alberta?

Mr. Martel: Not exactly. At the general level, yes. Exactly identical operations are performed in both places. But in Ontario, there may be a more specialized plan.

Senator Flynn: So, In Alberta they do exactly the same thing as in Quebec?

Mr. Martel: As mentioned earlier, there are new plans. I am speaking about the development that was quite often done in the same plant. The product was dealt with from its very basics, from thread to weaving; and then if you look at Dominion Textile, it is the same company. You might say that it is an integrated business, in which there are specialized people in the various places where a single product is turned out. This makes American-style mass production possible. So, it developed in this direction, and I believe in also did in Ontario.

Senator Desruisseaux: Mr. Martel I think that western production depends mainly on petrochemical products?

Mr. Martel: Well, there is butane and paper. Petrochemical products do not hold a sufficient part of the Canadian market to control the petrochemical industry. This is clear. It is sent to the United States that take the product at the start and sell it back to us because the Canadian market is not protected. It is not sufficiently protected to enable the petrochemical sector of the textile industry to operate in Canada.

Our main recommendation in the field of textiles and clothing is that, in our opinion, the Federal Government should urgently deal with the main import sources, notably the United States and the member countries of the European Common Market. It may not be easy but I think that it is important. Moreover, even before we came here before you this morning, you had mentioned that it may be important to have agreements even with the United States. But in this field, we think, and this is what made us react, that in the case of the Auto Pact, it is not sure that it is profitable for Canada if the automobile agreement is considered as opening up a market, it also does not seem to be necessarily profitable to both countries. So, we must be very careful about the agreements we enter into. We think that we must protect the Canadian market even against the United States, as they themselves did, because they protect themselves against Canada in that field. In fact, we are for safeguards, the defence of existing jobs. We are against any closing down of plants under the pretext that there is a lack of productivity or for any reason of profita-

bility. If there are cases of arbitrary closing down of plants, our position, which is expressed in the brief, is that, if necessary it should be expropriated by the State because, in fact, if we were to calculate all the assistance given to that industry, would there not be a portion paid by Canadian taxpayers? And we, the working people, are also part of it.

However, in arbitrary shut-down decisions, there may be a question of profitability, but there are also companies that will often obtain machinery there and also sorts of equipment, and, as a result, they will not make new investments in another area. They will take everything. In French, we say that they will suck the local firm dry. So, when it is not profitable any longer, because too big an investment would be necessary, they decide to close down. Surely, even there they say that what will remain is expropriation. Now, what would be done with that money . . .

Senator Flynn: Who will expropriate?

Mr. Martel: The government.

Senator Flynn: What government?

Mr. Martel: This government. Representations are made in Ottawa. It is within the framework of a workers' assistance program. We say "expropriated by the government", and if it is no longer profitable, then we could help the workers with the remaining money.

Senator Flynn: You have stated that we should maintain even what is not profitable and that government should expropriate and continue to operate non profitable plants. This is what you suggest?

Mr. Martel: Well, if it is workable.

Senator Flynn: Earlier, you said "even non-profitable".

Mr. Martel: If it is absolutely not profitable, at one point it will close down. This is clear. But often, before it becomes non-profitable; what I mean is that everything has been taken away and no one has re-invested in the business. We have been helped all that time.

Senator Flynn: On the whole, Mr. Martel, what you suggest is that—the main evils of the textile industry come from our free enterprise system. On the whole, this is what you say?

Mr. Martel: The workers must bear many evils.

Senator Flynn: Yes, but do not speak only about the workers. We are dealing with the industry as a whole. This is what you are trying to suggest?

Mr. Martel: I think this is the case. The American industry is bigger than ours.

Senator Flynn: So the solution is expropriation, nationalization, the abolition, if you want, of the free enterprise system. This is what you mean?

Mr. Martel: No, we are telling you . . .

Senator Flynn: Well, this is what you want to tell us, is it not?

Mr. Martel: You can interpret it as you wish.

Senator Flynn: There is no other interpretation but what you have just said

Mr. Martel: You can also read it. When a plant decides to close down, it is not because they want it to close down. But when they decide to close down, I think that the Canadian taxpayer has a right in view of all the money he has invested. It is fine to protect business, but we think that employment should be protected. Once they decide to close down quickly, there should be longer delays before this is actually done.

Senator Flynn: I think this is the case in the moment.

Senator Asselin: Under the Quebec Labour Code.

Senator Connolly (Ottawa West): Have you any reason to believe that if private enterprise cannot make a business run profitably nationalization or state ownership could do so?

Mr. Martel: Would you repeat that? My English is not very good.

Senator Flynn: Maybe I can translate: Do you have more faith in a state-run economy than in free enterprise?

Senator Connolly (Ottawa West): That is the philosophical way to say it. Suppose an industry or a business in the textile industry is declining, for any number of reasons, and it is going to fail, but there are jobs there, you say that perhaps it should be nationalized. Have you any reason to believe that nationalization would turn it around, would make it profitable, and in fact ultimately save those jobs?

Mr. Martel: Sometimes it is possible.

Senator Connolly (Ottawa West): But not without very vast subsidies.

Mr. Martel: As a matter of fact, I think Caroline Pestiau told us some important factors had to be taken into consideration, but there is no doubt that capitalism is oriented towards profit. Let us suppose, for example, that you want to keep a plant in operation for a given period; if you are not interested in making profits, it gives you a certain freedom. You could keep it operating for another year may be. Furthermore, the workers try quite often to get hold of the plant before it closes down: but when they do so, they always put their hands on a non-viable plant.

As for state control over the textile industry, it was mentioned, one referred to the problems of state-controlled industries, which create problems themselves because of the relative influence they have. I think we must admit today, that countries where state control is established have tried to disturb the Canadian textile industry, because these countries were able to subsidize their own industries. Generally speaking, this is the situation we face. Such Governments find a discreet way to support industries and their production costs being lower, they have a production capacity.

Senator Flynn: Whatever the regime the state will support its industries. You are not solving the problem at all.

Mr. Martel: You are not asked to change the regime. You are told that when the company decides to close down . . .

Senator Flynn: This is anyway what your Chairman, Mr. Pepin, keeps on asking: to change the regime.

Mr. Martel: Well, you can be sure that it is not for tomorrow.

Senator Flynn: So, keep both feet on the ground.

Mr. Martel: That is why alternatives are proposed in the meantime. If it is possible to keep a plant in operation for a given period after its owners have decided to close it down, we urge you to do so. Otherwise, you should at least take into account the contributions made by the citizens, and help the workers who are the victims of such decisions. In a way, this is the general philosophy adopted in that field. I do not think it is revolutionary in itself. However, I think we should keep in mind that much help has been provided to many industries, to Associated Textile among others, for various reasons such as tariffs. Consumers and taxpayers have provided direct support. Such help to industry should at least be taken into consideration, since we are told that the Government has not even been consulted. Management decided they had had enough, and they closed their doors.

Senator Flynn: Are you against this aid policy for the industry?

Mr. Martel: We are not against it, we are simply telling you that we should keep track of it.

Senator Flynn: Why? For what purpose? What do you have in mind?

Mr. Martel: As a matter of fact, I heard the employers say that the government's left hand does not know what its right hand is up to. The Government subsidized some companies, like in Berthier for example, where 13 jobs were created for a total amount of \$100,000. That plant does not operate any more. Circular knitting plants were subsidized, and the double-knit industry has disappeared. Subsidies are sometimes granted to help a local industry, or, at times, to assist the industrial sector as a whole, and as a result plants such as Fidji Dyeing in Three Rivers are subsidized. All the employers that were already involved in the field of material dyeing and finishing have told us: If Fidji Dyeing has been subsidized, then the Japanese industries have been subsidized as well, and they now compete with us. That explains why we are having difficulties and cannot pay good wages to our employees. I think this whole approach smacks of inconsistency.

Senator Flynn: There always is, and always will be some degree of inconsistency.

The Chairman: Senator Asselin?

Senator Asselin: Although it is certainly not my intention to change your views concerning your recommendations, I would like to explain something to you. In 1970, the Department of Industry, Trade and Commerce made a statement concerning the textile industry,—Mr. Pepin was Minister at the time,—and through his statement he also created the Textile Board. This Board still exists. I think that the employers as well as the employees are allowed to appear before the Textile Board to submit recommendations. In addition, the Textile Board often makes recommendations to the Federal Government, to the Minister of Industry, Trade and Commerce in order to amend the quotas or to change the international imports coming, namely, from Taiwan, etc., as you mentioned earlier. It was said in 1970 that the statement made by Mr. Pepin concerning the textile industry would solve the existing problem. Do you turn to the Textile Board, established by the Government, to make recommendations to the Government and, if so, what results did you get?

Mr. Martel: I think the results have been described here to the Senate Committee. When it is possible to prove that a prejudice has been inflicted, the Textile Board makes

recommendations, but it always intervenes too late. Furthermore, it cannot give an orientation that will be followed by the Government. That is what happens.

Senator Asselin: But is it not true that the Government follows the recommendations made by the Board in 75% of the cases submitted?

Mr. Martel: Well, the Canadian Textile Board told us here.

Senator Asselin: I know personally a member of that Board, native of the lower St. Lawrence. He knows what he is doing. I had a long talk with him concerning the Textile Board. He told me that when the Board makes recommendations to the Government after hearing your complaints, the Government accepts those recommendations in 75% of the cases.

Mr. Martel: Yes, but that has been said in the Senate. I think that the Chairman of the Textile Board has appeared to explain that, generally, that is how it works, that it was followed by the Government. But, we know it was followed to late. I think this is what has been established. It is done, but too late. It is like the Anti-dumping Act. You need proof. Then, you start from there and you know six months later, but the damage has already been done. That is the problem. At that time, the Board did not exist only to hear representations, but a general textile policy ...

Senator Asselin: That is right.

Mr. Martel: ... was also established, which means that there are limits to the help given to the textile industry, because it is the consumer who pays. On the other hand, in the future, help will be given to those industries that can become viable and productive. Help will especially be given to them, in order to reinvigorate, over a ten-year period, those that can go on living. That was the general policy.

Senator Asselin: The Board has investigation powers as well.

Mr. Martel: This is where a pre-retirement help program and an adjustment help program have been established for the workers; all that to say that there are people who will have to endure the consequences of the restructuring of certain industries. A pre-retirement program has been established to diminish these consequences. It has been established that this program has cost one and a half million dollars since its existence, and that after all there were not so many workers affected, and that it could be improved relatively cheaply, for the aged workers who, because of that situation, have to leave the textile industry. That was a global concept. It is not the efficiency of the Board and of its studies that has been disputed in the Senate, but the slowness of enforcement following their recommendations. I believe no one has contested their work, nor the value of the studies they have made, it is just that they came too late. Moreover, it has been said that they would like to have the protection of the Board.

Senator Asselin: That means that Departmental decisions, following the recommendations of the Commission, came to late.

Senator Flynn: That is right.

Mr. Martel: The thing is that small countries—we say that there are not many of them, but it is mainly the small

countries with low income which import disturb the American market with their sudden mass entries of goods. Then, they would slightly exceed established standards, and once they had performed in a certain manner, they were allowed greater possibilities every year. So, these countries temporarily disturb the market. The problem which we do identify, concerns the big importer, and that is why we say that the United States has some responsibility in that regard. Anyway, this is the reason why we have been somewhat concerned so far, and dissatisfied that nobody in the Senate Committee raised that point, because there are nationalists in the Senate just like anywhere else.

Senator Flynn: Yes.

Senator Asselin: I think that, here in the Senate, we are very sensitive to your problem, and every party has told the Board that it was a crucial problem which we would have to solve. This is why you are appearing before us, as Senator Desruisseaux said.

Mr. Martel: There is the question of pre-retirement which applies specifically to the textile industry. It is implemented however, and in the case of Louiseville, 67 persons did benefit from it. It is good that it exists. It is a federal program administered by the Department of Labour, which is supposed to last five years. It is only a temporary program. What we want to say before the Senate, I think, is that the problem of the workers must also be considered.

Senator Flynn: Certainly.

Mr. Martel: This pre-retirement plan should not be dropped, because there is a danger, if this program is dropped which provides protection for workers. It must be maintained.

Senator Flynn: Let us return to the main point, Mr. Martel. The important point is that an industry must be viable, whether it be run by the State or by the private sector, it must be viable.

You face a serious problem which you have brought to our attention. According to you, massive imports of textile products in the United States amount to 54 per cent. Therefore, it is with regard to this problem that you must suggest solutions. Therefore, I think that even if we nationalize the industry, this will not change anything, if the United States continues to import 54 per cent of their textile products.

Mr. Martel: It is perhaps a matter of reaction; we did not understand each other.

Senator Flynn: I don't think so.

Mr. Martel: I am not saying that nationalizing the Canadian industry is the solution. I am saying, when the companies...

Senator Flynn: But, I am asking you what is the solution regarding imports from the United States?

Mr. Martel: We are telling you that imports from the United States should also be subject to a quota.

Senator Flynn: Of course, I agree on this point.

Mr. Martel: You must not think that by settling the problems created by other countries, even if their wages are low, that it will solve the problem, because if we had 70

per cent of the market, and if we were to leave the same percentage to the United States, no other country could export these products to Canada.

Senator Flynn: If we impose a quota on American products, the textile industry can have their part of the Canadian market, then you will be able to reach a level of prosperity...

Mr. Martel: Right.

Senator Flynn: Whether it be run by the State or by the private sector.

Mr. Martel: No, what I am saying...

Senator Flynn: Then, your problem would be secondary. You change the system as you wish, but in the meantime there will be other problems.

Mr. Martel: If, effectively, Canada's policy tries to protect the Canadian market, to reserve 70 per cent of it to the Canadian industry, we think it may solve three quarters of the problems which exist. It is possible...

Senator Flynn: This is logical.

Mr. Martel: I agree. One quarter of the problem would persist, and in this area shut-downs would still occur, within the economic operation of the system.

Senator Flynn: We will see in the course of time.

Mr. Martel: If that should occur, we think that because of the assistance given to maintain the industry, the workers should be protected. It is only under those circumstances that we should consider nationalizing or expropriating in order to be able to carry on the operation, during a period of one or two years, while the workers find other jobs, or other industries are brought in, because it has been stated before you that when a plant is shut down, there is no certainty that another secondary industry will be established in the same region.

Senator Flynn: In any case, when a private company thrives, the workers usually benefit from it. Do you agree with this?

Mr. Martel: This is why we have adopted the same position by asking the same protection for the Canadian industry. I think there is no contradiction between our position and that of the other industries regarding the protection to be given to workers. We put more emphasis on the protection to be given to workers. Furthermore, we wish to point out that when a multinational corporation operating in Canada decides to act that way, because it is no longer viable, they say they will invest in Chile, because investments in Canada are no longer profitable. If they don't make any profit, they will stop before they don't make any profit at all; barring some exceptions, they will wait, they have fifty million dollars which are there and which are waiting.

Senator Flynn: The problem will be the same regardless of the region.

Senator Desruisseaux: On page 22, you state:

... workers demand that the federal and provincial governments force companies to maintain their production.

Is it really a recommendation that you are making?

Mr. Martel: Yes. We are preparing general recommendations. It is certain that the problem of companies closing their operations does not occur only in the textile, clothing and footwear industry, it occurs in the industry as a whole. We are preparing recommendations on the closing of operations, especially when we are dealing with multinational companies, sometimes the reasons are not to be found at the national level. There are problems with this policy which is being developed and that is that if you say: you must carry on with your operation for at least a period of one year. Afterwards, the government would have to pay directly the sector involved, or where the plant is closing, the workers.

Senator Desruesseaux: You also say that where this is inappropriate, you ask for expropriation and "nationalization without compensation", what does it mean?

Mr. Martel: We did not make the translation, but I think it means expropriation for the value remaining. Furthermore, we told you to take the monies resulting from the expropriation, which are perhaps inferior to the value of the assistance given to the whole industry by the Canadian people, and to put all that money in a reserve fund to help the workers reclassify.

Senator Flynn: We cannot make expropriation without compensation.

Senator Desruesseaux: Without consideration either.

Mr. Martel: Well we can if we calculate the assistance we have all given to the industry. Then they say, you have been granted aid for a number of years to enable you to operate in Canada, and you will also be left with a value which is still a quarter. And this is because aid is given to the industry, then when they make their decisions, the aid is given and they leave with what remains.

Senator Flynn: But don't you think that the Government by expropriating industries which are not viable, will not put much aside, because it will end up with a white elephant in most cases.

Mr. Martel: Well it will sell.

Senator Flynn: It will sell what? It will sell to the Government.

Mr. Martel: It will sell the machinery.

Senator Flynn: To whom?

Mr. Martel: As scrap, if necessary.

Senator Flynn: As scrap?

Mr. Martel: No, but because it has a certain value. There is the land, it has a certain value. For instance, in Louiseville, there are now 125 employees; there were 800. We have been subsidized. The machines have been taken to the United States. Furthermore, the plant still belongs to the company. There is a reluctance to allow other companies to use the buildings. If we were to keep track of this, it would make it easier to tell them that they should allow the industrial development of that region.

Senator Cook: Mr. Chairman, I suggest that this philosophical argument is not going to help the problem at hand.

Mr. Martel: We did not expect it would be the area which would please you most.

Senator Flynn: No, but why deal with it here?

Mr. Martel: The main thing we wish to emphasize, and which we hope you will agree with, as we say in the brief, is to avoid discontinuing the assistance given to workers in such cases, and to try to improve it. This is the point we wish to emphasize.

Senator Flynn: We wish to help the whole sector to become viable. I think the only thing which is relevant, in what you have told us, is that we should impose a quota on imports from the United States to enable the Canadian industry to have its portion of the Canadian market. If you agree to that, I accept it. I think that the rest is absolutely irrelevant, if not impertinent.

Senator Desruesseaux: That is a good point.

Mr. Martel: I am not surprised that you take it that way.

The Chairman: I think this is a good time to adjourn for lunch. You can make a note of where you are at, Mr. Martel. We will resume at 2.30.

Mr. Martel: If there are many more questions we could come back, but I believe we have finished. You have the text.

The Chairman: Are there any other questions at this time?

Mr. Poissant: Only one, Mr. Chairman. Mr. Menard, would you submit to us in writing the recommendations like those suggested by Senator Flynn, presuming they are drawn directly from your report and your brief?

Senator Asselin: Expropriation without compensation.

Mr. Poissant: Are there other recommendations which could be added to the brief which the senators now have?

Mr. Martel: There are perhaps certain details on the pre-retirement adjustment Act that should be spelled out, and certain improvements which we would like to have in that area.

Mr. Poissant: Yes, you could perhaps submit them in writing.

Mr. Martel: It is in fact the same thing which the other trade unions were trying to tell you. A certain age should be specified because workers who are fifty to forty-five years old, have reclassification problems.

Senator Desruesseaux: Mr. Martel, just one question for the sake of clarification. You introduced yourself as an advisor.

Mr. Martel: Technical advisor in the area of textiles, clothing, and footwear.

Senator Desruesseaux: At the CNTU?

Mr. Poissant: Of the organization?

Mr. Martel: Yes, I am a negociator, with the whole group.

Senator Desruesseaux: Negotiator?

The Chairman: We will adjourn until 2.30.

The committee adjourned.

The Committee resumed at 2.30 p.m.

The Chairman: Honourable senators, this afternoon we are to hear a presentation from the Kingston Independent Nylon Workers Union. Mr. Robert K. Lutz is the president, and Mr. M. St. Amand is the vice-president. Mr. Lutz is going to make an opening statement.

Mr. Robert K. Lutz, President, Kingston Independent Nylon Workers Union: Honourable senators, we are here today to represent the 1,600 employees at the Kingston works.

Since our union was certified on January 10, 1968 our members have faced layoffs on several occasions. The most serious year in which we had layoffs was the year 1970. At that time we had three layoffs and we lost 342 members. At the time our brief was being prepared mention was made of the fact that we were anticipating another layoff in the near future. Since that time we have had a layoff of 123 members. Millhaven Fibres, 10 miles to our west, have had two layoffs since that time, totalling 193 members. This means that over 300 people in the Kingston area are without work to support their families.

A layoff presents many hardships for a person, one of which is the loss of income. During the last layoff we had one individual who had attempted with his family for some time to save enough money to purchase a home. When the time came for his name to come to the top of the list, he had to withdraw it from that particular list because he was no longer employed. Not only did he lose his house, but part of the money that he had saved for the down payment also. This meant that he had to wait and work harder to obtain enough money once again for a down payment. Again, this year, he is facing the possibility of yet another layoff.

We, as Canadians, live in a democracy—a fact which I need not explain to this committee—where at times our wants exceed our needs. I am here today to tell you that we want our jobs, and we damn well need them. We cannot live without them. We work in the textile industry and are here, not to ask for the moon but simply to ask for the opportunity to work. This opportunity is being taken away from us by the imports that are coming into the Canadian market.

We are asking this government to give us the same rates afforded our neighbours to the south and to the east of us. Give the imports a share of the Canadian market, but give us the right to work and earn from part of that market as well. We want to be able to hold our heads up high and to be able to say that we are supporting ourselves and not living off someone else.

We ask that you give us the same rights as the United States and Japan give their people. Let us work in our chosen field, and give us a good portion of our own market.

In conclusion, Mr. Chairman, I would ask you to use your influence, and this committee its power, to assist us and the rest of the Canadian market in surviving and being able to work in order to support our families.

The Chairman: I take it you have seen and read our first report?

Mr. Lutz: Yes.

The Chairman: Do you support it?

Mr. Lutz: Yes, I do.

The Chairman: There is no question about where the committee stands on the subject.

Mr. Lutz: No. I agree with your recommendations.

Senator Molson: Mr. Lutz, what union does the Millhaven Fibres employees have? It is not the same, is it?

Mr. Lutz: It is not the same. They are an international union, the Oil, Chemical and Atomic Workers.

Senator Molson: Yes, through the original C.I.L. Celanese. Alcan and Northern Electric would all be involved in different ways?

Mr. Lutz: Yes. We are the only independent in the area. Alcan have the United Steelworkers plus the Machinists Union.

Senator Molson: This morning we were talking about relative wage rates, and it was stated that in Quebec their rates were exceeded by a figure of, I believe, \$1.15 Canadian in Ontario and Alberta. On questioning, it emerged that the Quebec rates were perhaps the same as the average rates in the United States. Are your people carrying out the same functions as the Quebec workers, in discussing these wage rates?

Mr. Lutz: I do not believe that we are actually doing the same line of work. Our workers are making a fabric, nylon and polyester, and this is in turn sold to the mills in Quebec which knit the product into the material and garments.

Senator Molson: You are making a filament only?

Mr. Lutz: Yes.

Senator Molson: That is rather different from the fabrication. You are making the raw material for the other plant?

Mr. Lutz: That is right.

Senator Molson: Do you think those figures of the relative wage scales are roughly accurate? Are they acceptable to you?

Mr. Lutz: I do not have the facts to compare those figures.

Senator Molson: You do not know whether you are in a higher or a comparable position to the United States workers, for example?

Mr. Lutz: I believe that in the last report, 1975, we were just slightly above the United States.

Senator Cook: I have two or three questions, perhaps the answers to which the witness does not know, but I will ask them in any event.

Is this a new plant?

Mr. Lutz: No, the plant was built in 1942.

Senator Cook: Is it a new substance you are making?

Mr. Lutz: No, it was built to produce nylon fibres. I believe the first product was used for parachutes during the war. Since then they have expanded into tire cord and carpeting for homes. I believe those are the three main products we are working on right now.

Senator Cook: Would you know whether the machinery is up to date?

Mr. Lutz: The old part of the plant, which probably employs the largest percentage of people, contains a lot of machinery which was built or put into the plant during 1942. In that same plant there are some newer machines which were installed in the late 50s. The newer machinery we have is in what we refer to as the south plant. In this we have the tire cord industry, the carpet yarn and some of the textile fibres. This machinery is as modern as last year.

Senator Cook: Do you know if the plant operates at capacity?

Mr. Lutz: They have been operating at about, I would say as a rough figure, 95 per cent capacity. Today they are down to approximately 50 per cent because of the market.

Senator Cook: When were they operating at 95 per cent, and when did they go down to 50 per cent?

Mr. Lutz: I would say probably from the fall right through until February-March of this year.

Senator Cook: From the fall of 1975 to March of this year.

Mr. Lutz: We operate at about 95 per cent efficiency at all times, with the exception of when the market softens, and then we do not have sales.

Senator Cook: Efficiency or capacity?

Mr. Lutz: Well, I refer to the two as the same.

Senator Cook: You would not know whether or not your prices are competitive with the U.S.A. prices.

Mr. Lutz: I believe they are. I believe the problem we have right now is that the American market is dumping surplus material. Part of our industrial plant which produces the tire cord is being phased out and we have been relying entirely on the automatic machinery which has been producing tire cord now for some ten years. I would say it is the same equipment being used by the Americans.

Senator Cook: Do you know whether or not there is any tariff protection for the products of the plant?

Mr. Lutz: I do not believe there is. I could not answer that truthfully. I guess actually there is a tariff.

Senator Cook: Thank you.

Senator Macnaughton: You say your production is down. Is that due to general market conditions, or is it due to imports from the U.S.A.?

Mr. Lutz: I believe it is largely due to the imports from the U.S.A. The problem in the entire industry started in the fall of last year. I believe we stopped making or slowed up production of our tire yarns because the plants were not making tires in Canada; they were being made in the States and shipped in as complete units.

Senator Macnaughton: That is a shift in the tire business, isn't it?

Mr. Lutz: Well, it is a loss of business for our own tire plants.

Senator Macnaughton: Yes.

Mr. Lutz: Our tire plants in Canada have been closed down or are running at a very low level because of the imports, not because they could not produce the tires.

Senator Macnaughton: Well, that applies to other tire companies, does it not?

Mr. Lutz: I believe all of the tire companies were hit by this.

Senator Macnaughton: In Canada?

Mr. Lutz: Yes.

Senator Macnaughton: The companies you mentioned are Alcan, Millhaven Fibres, Northern Electric and Dupont.

Mr. Lutz: Yes.

Senator Macnaughton: Northern Electric has 600 employees, according to your brief. What fibres are made there?

Mr. Lutz: I believe they are covering the wire for Bell Telephone. It is a cable plant for Bell Telephone.

Senator Macnaughton: Do they make that material or do they buy it from you?

Mr. Lutz: No, I don't believe they buy it from us.

Senator Macnaughton: They make it?

Mr. Lutz: Yes.

The Chairman: Do they supply only Northern Electric?

Mr. Lutz: I believe that is their big—you mean—

The Chairman: So that it is a sort of captive market.

Mr. Lutz: I don't think we supply Northern Electric at all. We don't supply them with anything.

Senator Molson: They are not using nylon covering.

Mr. Lutz: No, they are using plastics to cover their wire and we don't work with plastics at the plant.

Mr. M. St. Amand, Vice-President, Kingston Independent Nylon Workers Union: I believe Northern Electric is a subsidiary of Bell Canada. I believe Northern Telecommunications is the new name they have come up with in the last month or so. I know they have changed the name.

Senator Molson: Telecom.

Senator Cook: Mr. Chairman, would the witnesses care to comment on what their rates are and whether the work is of a highly skilled nature?

Mr. Lutz: We have a hiring rate of \$5.16 an hour, and we have progression rates. As you are promoted to a different job you receive an increase in rate of pay. As for the work in the south plant, the new areas of the plant, it is a highly complicated operation which involves bringing the molten nylon filaments down and getting thee wound on the package. That is a job which requires a considerable amount of training.

Senator Molson: What is the rate there, if I may ask?

Mr. Lutz: The rate there, I believe, is now \$5.83.

Senator Molson: What is the median rate of the whole plant?

Mr. Lutz: I believe the rate now, since our last contract, would be somewhere in the neighbourhood of \$5.80.

Senator Desruisseaux: Does the province of Quebec have a similar production?

Mr. Lutz: I do not believe so, no. The company had planned to build one plant just on the other side of the Quebec border, but that has been delayed now because of the market. That would have been a similar plant.

Senator Lafond: Was any of the tire core production from your plant destined for export or was it solely for local consumption?

Mr. Lutz: I think it was largely for local or domestic consumption, senator.

The Chairman: Is there any production that you produce for export?

Mr. Lutz: I have been away from the area for some time. I believe at one time we did export the nylon flake itself.

Senator Desruisseaux: Would that have been to the United States?

Mr. Lutz: I believe some of it went to Britain and some to South America.

Senator Macnaughton: Who is the owner of Millhaven Fibres, if you know?

Mr. Lutz: I believe it is Celanese right now. It was originally built by CIL and it has been sold twice in the last five to ten years. I believe it is Celanese now.

Senator Molson: Originally it was built by ICI, then it went to its subsidiary CIL, and then to Celanese.

Mr. Poissant: Have you ever been invited to go to the board to present your views on textile problems?

Mr. Lutz: No, I have not.

Mr. Poissant: Was your union never invited to present its views on the different aspects of textile problems—for example, the excessive imports?

Mr. Lutz: No.

Mr. Poissant: Did you ever ask to go to the board to present your views yourself?

Mr. Lutz: This is the first such meeting we have attended.

Mr. Poissant: You have never been invited by the Textile and Clothing Board? They have never said they would like to hear your views, and you have never asked, on the other hand, to attend or to present your own views?

Mr. Lutz: No; to my knowledge, we have not. I have only been in office for some 18 months. It would be difficult for me to say what communications past presidents may have had.

Mr. Poissant: You know that you have a right to present your views to the board and, knowing that, would you as a rule use that vehicle to make your statements? You make a very strong statement which has been endorsed by all of the people who have been here—namely, that you want the

importation to be stopped as soon as possible. But have you ever used the board as a vehicle to tell them that, or to tell them that they should look after the excessive importation?

Mr. Lutz: No. I think that the union itself is becoming more interested in expressing its view now than it was in the past. We are a relatively new union. We are comprised completely within the plant. Everyone works in the plant who has to do with the union. We have one outside worker, who is the secretary. The interest is growing more and more to get out and speak out.

Senator Molson: Did you start out as a member of an international or larger union affiliation, labour affiliation, or did you start your own union?

Mr. Lutz: When I started working with the Kingston plant I joined the United Mineworkers, who were the bargaining agent for the plant.

Senator Molson: When did the split come?

Mr. Lutz: The split came or started in 1965 following the strike, when we felt we were not getting support either in finances or in morale from the international. We started out with a little over 900 members. Right now we are up to approximately 80 per cent of the plant, which is the highest it has ever been.

Senator Macnaughton: I notice that the major employers, Alcan, Millhaven, Northern and Dupont have about 4,900 employees.

Mr. Lutz: Yes.

Senator Macnaughton: Are most of them unionized?

Mr. Lutz: All of the plants are unionized. We are the only plant of that group of four which does not have a compulsory joining of the union.

The Chairman: Or international affiliation?

Mr. Lutz: That is right. We are not a member of the CLC. We are not a member of the Canadian Independent Unions.

Senator Molson: It is not a closed shop?

Mr. Lutz: No, it is not. Membership is there, if you want to join.

Senator Macnaughton: Is that true of the other three companies?

Mr. Lutz: Well, I think in all three of the other plants you do not have to belong to the union, but you must pay union dues.

The Chairman: Or the equivalent of union dues.

Mr. Lutz: Yes.

The Chairman: Any further questions?

Senator Cook: I think the witnesses are to be complimented on their brief, Mr. Chairman.

Senator Desruisseaux: I second that.

Senator Molson: I think we should observe, Mr. Chairman, that for the smaller, independent unions to come to these meetings represents a lot more effort than it does for the larger organizations, and I think we should tell them,

in observing how much we appreciate their coming, that we are very interested in their making the effort and taking the time to do it, because I do think we want to hear from them.

The Chairman: That is correct.

Senator Cook: We have probably gone over a lot more ground. A lot of what you have said here has already been covered in previous hearings, of course.

Mr. St. Amand: The only thing with us is that we work at the plant, and it does affect us more personally.

The Chairman: Is there any suggestion you would like to make on any point that might be added to our first report?

Mr. Lutz: In one of your recommendations, Mr. Chairman, you recommended strong controls, and we would like to see those controls, when they are implemented, instituted not on an annual basis but more frequently than that—say, on a quarterly or monthly basis. If they are set up on an annual basis, an importing company can dump all of its products in the first part of the year, at which time we would end up with a lay-off situation, and then an all-out burst, if we got the orders subsequently.

It poses another problem. Quite often, when the importing countries reach their quota early in the year, they make appearances before the government to try and have their quota enlarged; and that hurts, too.

The Chairman: You know that in the report that we made we recommended that a very long list of products be put on the import control list at the same time that the government is negotiating bilateral agreements with the underdeveloped countries. The advantage of that is that it gives the kind of control that you are talking about, since you cannot bring in any part of the product that is on the import control list without an import permit, so that you do monitor them to that extent as they come forward. This is exactly what you want, and which we thought was exactly what was needed.

Mr. Lutz: I recall that being mentioned this morning.

The Chairman: Any other questions?

Is there anything further you would like to say on this? I do not need to tell you that we have enjoyed your appearance. We liked the straightforward way in which you made your presentation.

Hon. Senators: Hear, hear.

Mr. St. Amand: There is one point we would like to raise, and that is with regard to students. I think that a situation such as we had in the summer of this past year, when students were not being hired, is detrimental to our system, in that they do not earn the money in those circumstances to enable them to go back to school. When students are not employed during the summer months it does hurt the economy, and also deprives us of the technology we gain from these students when they do go to work. Furthermore, their money is fed back into the economy through their tuition, and we receive the benefit of that. It is therefore a two-way street. We have to give something. I think that the Canadian people, as a whole, lose when students are not being employed because they do not receive the training in the schools that they have to have. If one of them drops out, we are the losers.

The Chairman: We lose their purchasing power.

Any other questions? If not, thank you very much, gentlemen.

That concludes today's hearings.

Tomorrow morning we are going to hear two different groups of importers. One group may very well be on one side of the question, and it is quite possible that the other group will be on the other side of the question. However, we will get an opportunity to analyze what they have to say.

I expect that Mr. Armstrong will be here tomorrow, and he may have a summation to give us. Otherwise the hearing tomorrow morning, subject only to when Mr. Armstrong is going to make his presentation, will conclude our hearings at this time.

Senator Desruisseaux: Before we conclude, Mr. Chairman, I should like to say that at one time during the sessions we have had, the Textile and Clothing Board, at our request, if I remember correctly, was to furnish us with the details of the inquiries and reviews that have occupied a certain space of time since 1970. In the material they have given us they give the finding and the recommendation, but we have not received what actually happened. It is my information, at least, that in part some of these recommendations were not followed. I believe that that should form part of our material here.

The Chairman: Well, I think what we could do is to instruct our clerk to get in touch with the board and point out to them that they have not furnished all the material that we expected. We can ask them if they could appear tomorrow morning and bring the material with them. Is that clear, Mr. Jackson?

The Clerk of the Committee: Yes, Mr. Chairman.

The Chairman: If they say that tomorrow morning is too soon to collect the material, we will say we want it at the earliest possible moment and certainly within a week.

Senator Desruisseaux: This will give us a good picture of what actually happened.

There is one other point that I believe should be brought up, Mr. Chairman. We have talked a great deal about the GATT arrangements. Canada, at the moment, is studying new GATT arrangements. I believe that we ought to know, in the process of making these new arrangements, whether the textile and other industries have been consulted. I consider that it would be very useful if we were to have one of the GATT personnel come here and say where we stand with regard to the GATT arrangements at the present time, and whether they are in fact consulting with the different industries that are involved, and whether it is for the short term or the long term.

The Chairman: That would be the Department of Finance. I would suggest that our clerk check with them and inform them that we should like to have made available to us whatever information they have available in connection with the extent to which the considerations with regard to GATT refer to textiles. If this material is already collected, we would like it tomorrow; if not, we would like it within a week. Is that satisfactory?

Senator Molson: Do we know whether there are any on-going discussions on the textile trade agreements? Are there any bilateral discussions under way at the present

time? I have forgotten whether the minister or any of his officials discussed that, or whether it was mentioned.

The Chairman: No. If you recall, when the minister was before us he referred to this so-called *ad hoc* committee that he had appointed. My guess is that it was an inspiration of the moment. I mean that kindly, of course.

Senator Molson: I am sure.

The Chairman: They would be reporting by the end of June, he said. The only difficulty about the end of June is that if Parliament sticks to that as a firm date, the present session will adjourn, and we would not have an opportunity to get at it. I would like to regard this committee as being a continuing committee. If the work is interrupted

by a new session, then the committee can be reconstituted and we can still carry on. But I just want everybody to know that just because a new session comes along, we are not going to cease to be interested in this question; we started with it and we are going to stay with it.

Senator Cook: The trouble is, Mr. Chairman, that if we get too troublesome we may have new members.

Senator Molson: Not altogether.

The Chairman: Well, we will take a chance on that. The committee is adjourned until 9.30 tomorrow morning.

The committee adjourned.



Government
Publications

FIRST SESSION—THIRTIETH PARLIAMENT
1974-75-76

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
**BANKING, TRADE AND
COMMERCE**

The Honourable SALTER A. HAYDEN, *Chairman*

Issue No. 90

THURSDAY, JUNE 3, 1976

**Ninth Proceedings on:
"Canadian Textile Problems"**

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Austin	Lafond
Barrow	Laird
Beaubien	Lang
Buckwold	Macnaughton
Connolly	Manning
(<i>Ottawa West</i>)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
*Flynn	Smith
Haig	(<i>Colchester</i>)
Hayden	Sullivan
Hays	Walker—(20)

Ex officio members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, May 27, 1975:

Pursuant to the Order of the Day, the Senate resumed the debate on the inquiry of the Honorable Senator Desruisseaux calling the attention of the Senate to Canadian textile problems.

After debate,

The Honourable Senator Asselin, P.C., moved seconded by the Honourable Senator Choquette, that the subject-matter of the inquiry be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,

Clerk of the Senate.

Minutes of Proceedings

Thursday, June 3, 1976.

(121)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m.

Subject: "*Canadian Textile Problems*"

Present: The Honourable Senators Hayden, (*Chairman*), Barrow, Connolly, (*Ottawa West*), Cook, Desruisseaux, Flynn, Lafond, Macnaughton, Molson and Smith, (*Colchester*). (10)

Present, not of the Committee: The Honourable Senator Asselin. (1)

In Attendance: Mr. Richard M. Freeborough, Consultant to the Committee.

WITNESSES:

Canadian Importers Association Inc.:

Mr. Keith G. Dickson, Executive Vice-President;
Mr. Murray E. Corlett, Q.C., Counsel; and
Mr. Rolf Welke, Vice-President.

Canadian Textile Importers Association:

Mr. Morty Kape, President, Triton Industries Ltd., Montreal;
Mr. Gerald Cohen, President, Popular Industries Ltd., Montreal;
Mr. Murray E. Corlett, Q.C., Counsel;
Mr. Daniel Freedman, President, Transcontinental Sales Co., Montreal; and
Mr. Harry Goan, Director, Amcan-Charter Importers Ltd., Montreal.

Following the opening statements, the Committee proceeded to the examination of the witnesses in furtherance of its study of the above subject.

At 12 noon the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Thursday, June 3, 1976

The Standing Senate Committee on Banking, Trade and Commerce met this day at 9.30 a.m. to give consideration to Canadian textile problems.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: This morning we shall be hearing from two groups: the Canadian Importers Association, and the Canadian Textile Importers Association.

Before we do so, I should explain something that developed arising out of yesterday's meeting when Senator Desruisseaux asked if we could have some information from the proper department as to what, if anything, was going on in relation to the International Trade Agreement under GATT.

It looked at first as though we were going to have an official here this morning, but it has not been cleared. However, I did get the information that nothing has been done as yet in connection with the negotiation of a new International Trade Agreement which matures some time during the next year.

On the other matter, which is the list of decisions or recommendations of the board, I expect during the morning to distribute copies of that list.

The other point I wish to mention is that yesterday reference was made to the "Made in Canada" label which appears on a lot of imported merchandise. I made some inquiries, and the information I received from the lawyer in Customs was to the effect that the authority for marking goods "Made in Canada" is contained in section 17 of the Customs Tariff Act, and in the regulations thereunder, which are provided for in section 17 by Order in Council 1963-1775. I have a copy of that.

In reply to further questions, Mr. Brown, the legal adviser in Customs, has explained that the value determined is in terms of the cost of the work on the manufactured article, and that determines which country is considered the country of origin. For example, if a shirt is made in Taiwan at an overall cost of \$5 and is shipped to Canada for finishing, and if the Canadian labour costs are, say, \$10, then the garment can be labelled "Made in Canada." In other words, "substantially." Here we meet the word "substantially" again.

The regulation entitled "Marking of imported goods" reads as follows:

For purposes of the Marking of Imported Goods Order, the country of origin of imported goods is that country where the goods were substantially manufactured.

So it looks as though we are going to be haunted in a lot of legislation by the use of the word "substantially."

Sooner or later we will have to determine what it does mean.

He continued: In other words, "substantially," as used in the act and regulations, has been interpreted as meaning the value and not the time factor. The Customs people are trying to switch the interpretation of "substantially" to mean the amount of time required for the manufacturing or finishing rather than the cost.

So that is the up-to-date information on that. Certainly, if they sew buttons on, I do not see how it could be stated or concluded that a substantial amount of manufacture is done in Canada. It think we will have to try in some way to verify whether that method is being followed. If it is, it would certainly look like a distortion of the effect of the act and the regulations.

To get down to the business of today's meeting, the first submission will be from the Canadian Importers Association Inc. Appearing are: Mr. Murray E. Corlett, Q.C., Counsel; Mr. Keith Dickson, Executive Vice-President; and Mr. Rolf Welke, Vice-President.

Who will be the main spokesman?

Mr. Murray E. Corlett, Q.C., Counsel, Canadian Importers Association Inc.: Mr. Chairman, Mr. Dickson, the Executive Vice-President of the Canadian Importers Association Inc. will be the spokesman.

The Chairman: We will give Mr. Dickson the preferred seat, then, where he will be more attackable.

Do you have an opening statement, Mr. Dickson?

Mr. Keith G. Dickson, Executive Vice-President, Canadian Importers Association Inc.: A very brief one, Mr. Chairman. May I first record our appreciation for this opportunity of presenting our views in your consideration of Canadian textile problems? I believe, Mr. Chairman, you and your honourable colleagues have been provided with copies of our brief.

The Chairman: Yes, and you can assume we have read it.

Mr. Dickson: Since the brief has been circulated in advance, I would prefer to confine my remarks merely to saying that we would like to resist any further protectionism insofar as the Canadian textile industry as a whole is concerned. We would welcome questions from the committee that you feel necessary or appropriate to assist in clarifying or justifying the position we have taken in this matter.

The Chairman: I take it, then, generally speaking, you do not—or do you—approve of the first report we have made?

Mr. Dickson: I believe you are referring to the interim report of the committee.

The Chairman: Yes.

Mr. Dickson: We were not exactly delighted with the interim report.

The Chairman: I am wondering whether there is as much conflict as you may think between your view and the view set forth in the interim report.

Mr. Dickson: That is possible, Mr. Chairman. The publicly reported sections of the committee's interim report seemed to indicate that even more protection than exists at this time was necessary for the survival of the Canadian textile industry.

The Chairman: It is not a prohibition; it is a quota system. Therefore, it means goods in some quantity would be available.

Mr. Dickson: That is true. The quota system has been more highly developed during the last five years, since the establishment of the Textile and Clothing Board. Indeed, the Textile and Clothing Board's particular function is to assist the industry, and among its recommendations to the government has been the application of quotas.

We find quotas to be a very expensive way of restraining imports. We feel, as we point out in our brief, that quotas are even more expensive than a very high tariff. There are a variety of reasons for this, the first being that the importer and the foreign exporter never know, at any given moment, what amount or what proportion of the quota is used. This makes the undertaking of commercial obligations and contracts, and so forth, abroad very difficult. This is a particularly serious matter insofar as textiles are concerned because they tend to be bought well ahead. When the Canadian importer and the foreign exporter have to make foreign contracts on an uncertain basis, then the quota really comes into its own. Indeed, our members have plenty of evidence that many foreign exporters will ignore the Canadian market because they cannot afford the risk of a subsequent cancellation should the quota be filled at the time the shipment finally takes place.

Similarly, for some reason which is quite beyond the knowledge of our association, the Textile and Clothing Board's recent recommendations have introduced a new nightmare for the importer and the foreign exporter in the form of the surveillance and monitoring program. This is designed, reportedly, to assist the Department of Industry, Trade and Commerce, and the government generally, to assess at any given moment and with more rapidity the exact volume and origin of imports of textiles from around the world.

The Chairman: The view was that without some method of monitoring, overshipments and transshipments could occur more easily and be in the distribution process in the market in Canada before the customs people would be aware of them. What do you have to say to that?

Mr. Dickson: We submit, Mr. Chairman, that no item of textiles, or any other item for that matter, enters Canada without customs surveillance, and that such surveillance should be adequate. Perhaps a little speeding up in the communication process from the ports of entry is required,

but the monitoring system developed by the government, on the recommendation of the Textile and Clothing Board—and the government has even gone beyond that recommendation on some products in adopting its monitoring system—we find as restrictive as a formal quota, or as effective a deterrent as a formal quota. As soon as a monitoring program is undertaken, we are led to believe, and have some evidence—not much yet—that a quota is inevitable as the sources and volumes of foreign imports under the program are identified. We would like to see as few quotas as possible, or no monitoring system. We do not think the monitoring system is as useful as its proponents claim it to be.

The Chairman: The International Trade Agreement which operates under GATT does contemplate a quota system if, say, Canada and some other country are able to get together and enter into a bilateral agreement. The net result would lead to a quota. Is that not right?

Mr. Dickson: Usually, but I do not think the framers of the GATT Agreement to which Canada was an original signatory had in mind the rather generous use, and semi-permanent use, to which Canada is applying quotas at the present time, or threat of quotas which, as I say, through the monitoring system, is nearly as effective as a quota itself.

The Chairman: Have you a list of cases where quota agreements have been entered into under the International Trade Agreement?

Mr. Dickson: We do not, Mr. Chairman. We presume that Industry, Trade and Commerce and the Office of Special Import Policy, which negotiates these quotas, is operating under the GATT Agreement. We must assume that. We have always felt, however, that the Textile and Clothing Board, in its concept—and we so indicated to you and your honourable colleagues at the time—stretches Canada's obligations under GATT to the very limit. I do not think GATT ever had in mind a police body, as it were, to ensure that every item of textiles coming into Canada is subject, without notice, to review and possible restraint.

The Chairman: Are you opposed to quotas that establish volumes?

Mr. Dickson: Yes, we are opposed to quotas that establish volumes.

The Chairman: You feel that goods in any volume which the exporting country may wish to ship to Canada, and for which a market can be found in Canada, should be permitted to come in?

Mr. Dickson: Yes, under the existing surveillance of the Customs Act, the Customs Tariff Act and, of course, the other related legislation, such as the Anti-dumping Act, and Canada's Textile Labelling Act, which is an excellent vehicle for consumer protection and one which we, as an association, wholeheartedly support. Because of Canada's small size as a world market for textiles, it has proven a deterrent to foreign exporters, thereby accounting, in some measure, for the reduction of certain lines of finished textile garments.

Given those protections, and with the protection of a fairly substantial—in fact, we feel significantly substantial—tariff, we feel that there is adequate protection for the Canadian textile industry without the need for additional quotas.

The Chairman: What is the protection that is afforded in the ordinary way by customs when goods are exported to Canada?

Mr. Dickson: In the ordinary way, customs are required, of course, to appraise the goods for value, assign the appropriate tariff item, and collect the duty and sales tax where applicable. Simultaneously they have to act on behalf of various government departments, as I believe you are aware, in that they also must check the marking of the goods, the packaging and so on, to ensure it meets Canada's legal requirements. Working with officers from other departments, the customs service does a quite thorough and effective job.

The Chairman: The main points on the anti-dumping legislation to which you refer are really the underselling, selling at a lower price than in the domestic market, and essentially damage or injury to the domestic industry in Canada.

Mr. Dickson: That is correct.

The Chairman: If those two things are found by the Anti-Dumping Tribunal, what you suggest is that we should just let events take their own course?

Mr. Dickson: Yes. We are subject to the laws of Canada, of course. The department must first find evidence of dumping, selling goods in Canada at a lower price than the home market, and subsequently the Anti-Dumping Tribunal must find evidence of injury. I must lightly comment here on your difficulties with the word "substantial". There are similar difficulties with what precisely "injury" is. Once, however, the Anti-Dumping Tribunal has established to its satisfaction that there is material injury, then the Canadian importer of the affected shipment and the foreign exporter share a responsibility and a liability to meet the dumping penalty.

The Chairman: We are interested in knowing what the word "substantial" means. It occurs in so many places. We are looking at it in another context now. Have you a definition that you would care to throw out to us?

Mr. Dickson: "Materially significant", I would suggest, is one that springs to mind. I know it is still rather vague. Something that is of "significant consequence".

The Chairman: Would that refer to quantity?

Mr. Dickson: Quantity, yes.

The Chairman: In that context, you do not object to measuring "substantial", for purposes of damage to domestic industry, by looking at the volume?

Mr. Dickson: I am just not quite sure of that question. Would you please repeat what you have in mind? Are you suggesting that we do not take volume into account as far as the domestic industry is concerned?

The Chairman: No. Your definition of "substantial" was "significant consequence". That would include significant volume?

Mr. Dickson: Yes.

The Chairman: So, in deciding whether domestic industry is hurt or not, at some stage the board has to look at the volume to say whether there is material injury by reason of the volume?

Mr. Dickson: Yes.

The Chairman: Making that finding in relation to under-pricing is not enough? The law does not permit that.

Mr. Dickson: No. That is the start of the proceedings. Injury must also, as you rightly point out, be sustained and proved.

The Chairman: I understand that ready-made suits, from whatever country they may come, have been put on the import control list. Do you know that?

Mr. Dickson: Yes.

The Chairman: You can bring them in only by producing an import permit.

Mr. Dickson: Yes, having applied to the Department of Industry and Commerce.

The Chairman: Yes, you have to apply to them for the import permit, so that is a process of monitoring.

Mr. Dickson: Right. Also, as we suggest, it is a deterrent to the foreign exporter.

The Chairman: He may not get a permit.

Mr. Dickson: Right.

Senator Cook: Mr. Dickson, in your excellent brief you rely somewhat on the report *The Canadian Textile Policy*, issued by the C.D. Howe Research Institute. At the top of page 94 that report says:

While it would be foolish to claim that Canada's international conduct in the textile field has been perfect, it does appear that the federal government has followed the letter and spirit of the ITA closely. The repercussions on domestic production and on Canada's success in negotiating advantageous terms of entry or export deals with countries that have benefited from the Canadian government's liberal safeguard measures will be watched by many of those concerned with reform of Article XIX of the GATT.

This refers to "The Canadian government's liberal safeguard measures." As I read this report I gathered the impression that the United States of America and the European Economic Community, who are among the most highly developed industrial countries in the world, were more restrictive in their textile import policies than Canada is.

Mr. Dickson: Caroline Pestieau's book was written, as I understand it, during the early months of 1975. Whilst it was true at the time that we were not quite so tough in textile restraints, certainly in the last 18 months Canada has been more vigorous, not only in its restraints but in their application to a variety, and an increasing variety, of textile products, particularly in the garment trade.

Senator Cook: You are speaking very generally. Could you give us some instances of what you mean?

Mr. Dickson: In the last few months, on the recommendations of the Textile and Clothing Board we have a situation on work gloves, which are now being monitored, and monitored a little more aggressively than I believe those who initiated the monitoring had in mind, in the sense that shipments are being held up and permits are not

being granted. Similarly, we now have an undertaking to monitor the entire outerwear import industry.

Senator Cook: What is involved in monitoring?

Mr. Dickson: Monitoring is checking at the time of entry the inward shipment of a particular product, in this case textiles. For example, to import a shirt of any value the Canadian importer is now required to apply for a permit to import that shirt. Actually, I should not say "that shirt". A single shirt is permitted if you buy one in the Caribbean. However, an importer who buys a commercial quantity of shirts must apply for a permit to import those shirts. He must apply at the time he places the order for the import of those shirts. The department should then automatically grant him an import licence.

However, the hidden hazard in the monitoring system is that the government can quickly and without notice—and usually without notice; it does affect these things—apply a quota. It is about to apply a formal quota on work gloves, which have been under a monitoring system since about November of last year. When it applies the quota it will apply against the quota the most recent imports of work gloves that have come into Canada. Work gloves have just been under a monitoring system. At the moment they have gone a little further than monitoring; they are being held, and a quota will shortly be either negotiated or announced by the federal government department concerned, the Office of Special Import Policy. At this point in time any importer of work gloves literally does not know what to do.

Senator Cook: Why doesn't he?

Mr. Dickson: If he places an order abroad at the moment, he will apply for an import permit and our advice from the members affected is that the import permits are not being granted at this very moment in time. In fact, the Office of Special Import Policy, to which this committee has access, may wish to confirm that to you. The whole work glove situation, under a monitoring program, is stopped dead. The importer of work gloves can make no commercial contract at the present time because he has no idea whether he is going to get the quota. This is commercially disruptive.

Senator Molson: What is his alternative source in Canada? How does it compare?

Mr. Dickson: Reportedly,—not from our members, who are also in many cases manufacturers themselves, Senator Molson, but from their customers—we understand that the Canadian industry is incapable of fulfilling the demand for work gloves.

Senator Cook: Yet you tell us there is a quota.

Mr. Dickson: There is an aggressive monitoring system at the moment. The quota has not been formally announced at this point, but permits for imports are not being granted.

Senator Molson: Are we talking about all types of work gloves or just cotton work gloves, or what? What are work gloves?

Mr. Dickson: It is easier to define "substantial." They are cotton, leather palm or all leather. Indeed, as your honourable colleagues may know, work gloves are a requirement in most construction and similar related industrial contracts. Workers have to be provided with work gloves.

The evidence from our importing members' customers, the people who use the gloves and resell them, is that the Canadian industry could not possibly meet the demand, and certainly could not meet the demand with the proposed quota that the department reportedly has in mind, which is 1.6 million dozen.

Senator Desruisseaux: I regret to interrupt but I would like to know where you have received the information that the Canadian needs vis-à-vis working gloves could not be met by domestic demand. I will tell you now that there are firms making these gloves, for instance BBW Glove, and possibly some others, whose production is going down and down because of imports. What have you to say about that observation?

Mr. Dickson: I cannot specifically answer your question, senator, because our advices, as I say, are from the importer. The importers' customer is saying to him that we cannot get the gloves and we will not be able to get the gloves if the import supply is cut off.

The Chairman: Isn't it part of the information that an importer should have, before he commits himself to orders, the state of the offerings? Does he not have to determine whether the Canadian market is such the he can safely and profitably bring in quantities of these products from other countries?

Mr. Dickson: They are all commercial businessmen and they assess the market in their own trade way and decide what they are going to buy and what they are going to risk buying.

The Chairman: In testing the market, would one of the tests not be the extent of the offering, and the extent of the market competition that they might have to meet?

Mr. Dickson: I suggest to you, sir, that they will establish this in their daily endeavours. They certainly would not be prepared to pay the price of quota harassment to get that information. I think they would be very happy to establish, in their own commercial minds, whether it is a viable proposition to buy or not buy, and then take the normal commercial risks, to which we are accustomed in a free enterprise society.

The Chairman: Notwithstanding the monitoring processes which you say are quite severe, the importers still keep on importing?

Mr. Dickson: They keep on trying to import?

The Chairman: Do they not? Do they not import?

Mr. Dickson: Yes.

Senator Cook: The brief uses certain expressions, just as the C.D. Howe Research Institute does, one of which is, "Canadian government liberal safeguard measures." They use the word "liberal" there in comparison with the measures used in the U.S.A. and the Economic Community.

In your brief you refer, on page 6, to the principal protection offered the Canadian textile industry being the high customs duties.

The evidence we have—I think I am right in saying this—is that the Canadian customs duties in relation to textiles, by and large, are in line with the customs duties in the U.S.A., the U.K. and the Economic Community. What comment would you have on that?

Mr. Dickson: I am not aware of the customs duties, senator, in the United States or the U.K., or any other country of the European Economic Community.

Senator Cook: Would you think then that the adjective "high" is correct?

Mr. Dickson: I was referring, with the adjective "high" in the brief, with my colleague's assistance, to the actual statement which is drawn from the same book, that the customs duties are 23.6 per cent on all textiles, 33.7 per cent on knitted goods, and 25.5 per cent on clothing. These seem, arithmetically, high.

Senator Cook: Yes, that is a little different.

Senator Molson: Those are average of duty rates?

Mr. Dickson: Right.

Senator Molson: They are not the average duty applied.

Mr. Dickson: That is correct.

Senator Molson: Therefore, they mean something else. They do not mean quite as much to me as I would like, in that instance.

Mr. Dickson: They are an average, as you say, Senator Molson, of the declared duties in the Customs Tariffs.

Senator Molson: Rates.

Mr. Dickson: Right.

Senator Molson: If we import \$100 worth of wollen goods, and \$1 million worth of cotton, and we average the rates, we are not really producing a figure that is of very great significance.

Mr. Dickson: Very true.

Senator Molson: I am wondering if there is a better figure. I am not picking at this; I am just wondering if there is a figure which would better illustrate the effect of the duties.

Mr. Dickson: I do not know of a better figure. We are quite well acquainted, of course, with the tariff itself, however, in reaching an average that is fair. I do not know of a better basis than we have here.

Senator Connolly (Ottawa West): I believe Senator Molson is simply saying rates are one thing but the customs take is another. The average rate may be 25 per cent and you may get \$100 of revenue but the rate on another item might be 15 per cent and you might get \$1 million worth of revenue.

Mr. Dickson: That is true.

Senator Connolly (Ottawa West): Which means that much protection. Percentages and rates do not mean too much unless you know what the product is.

Senator Molson: You cannot really average. I suppose you can, but it does not tell you very much.

Mr. Dickson: To assist Senator Molson further, I would say that one thing Canada is very good at is having an effective rate of customs duty. The rate of duty is applied to the value of goods for duty under the Customs Act. As all our major trading partners around the world will testify and are so advising our ambassador, Rodney Gray, who is our leader at the Canadian delegation, and advising him

vigorously, is our evaluation sections of the Customs Act are the most effective and over-effective in the world. They are sections 36 to 44.

The real impact of the tariff, to the last decimal point, is very effective with our value for duty basis.

Under certain circumstances, the Minister of National Revenue or his deputy can change quite arbitrarily the value for duty. A good example is on footwear from Taiwan, which last year the government advanced by 50 per cent. In other words, you buy the shoes at \$1 but you do not pay duty on \$1, you pay duty on \$1.50 at the same stated tariff raises in the book. This in turn would tend to distort the figures, as you suggest, the other way.

I would like to make the point, Mr. Chairman, that the tariff is high in our view, arithmetically, although I concede Senator Molson's point that an average is not the best way of expressing it, but more important or equally important is the effectiveness of the Canadian tariff which is reinforced by a rigid and very effective evaluation for duty basis.

The Chairman: The evaluation reflects the value of the currency.

Mr. Dickson: No. Insofar as the currency aspect of evaluation is concerned, that is decided again in the Customs Act by the daily issuance through the Bank of Canada, through the Department of National Revenue, of the international currency figures which customs officers must use to translate the currency on the invoice into Canadian dollars.

Senator Cook: My only other observation, Mr. Chairman, and it is more of an observation than a question, although I would like Mr. Dickson, if he would, to comment on it, is that the brief points out very correctly that a large part of problem comes because of exports into Canada from the U.S.A. and the European Economic Community. The evidence before us seems to indicate that our tariff is not out of line, that the rates of our tariff are not out of line with the comparable rates in the U.S.A. and the EEC. In negotiating their agreements, both the U.S.A. and the EEC as trading blocs rely heavily on quotas, and I just wondered, if all of the philosophical arguments advanced here against, shall we say, "high", tariffs and quotas are right in their effect on the Canadian public, why are they not equally effective on the public of the EEC and the U.S.A.? Why should we be the only one who is not to abandon these trading devices?

Mr. Dickson: That is a good question, senator, and I am happy to answer it. The United States and the European Economic Community both have larger domestic markets of their own. They have a lower unit cost and a higher rate of productivity. That is the evidence. More important, they are aggressive exporters, as this committee has learned and as our textile industry here in Canada has learned. It is our view that their exposure to world competition produces lower priced textile garments or piecegoods, or whatever, for their domestic consumers as a consequence of their aggressive export policy and exposure to world competition. We believe that any industry, especially one in Canada, which has a small domestic market, must be aggressively export oriented to reduce unit costs for the domestic, or Canadian consumer. At the same time they must add to the balance of payments of the country and expose themselves to world fashion, in the case of textiles, and, generally, world competition.

Senator Cook: Given the thesis that we have only 20-odd million people and therefore are a small market in everything, then, if you carry your argument to its logical conclusion, we should not be manufacturing anything, because there is nothing we manufacture that cannot be manufactured elsewhere in a bigger market. All we should be doing is exporting raw materials and perhaps manufacturing newsprint, but everything else should be manufactured elsewhere and imported into Canada.

The Chairman: Thus destroying substantial employment.

Senator Cook: Definitely.

Mr. Dickson: We have never suggested that the Canadian textile industry be abandoned. We have never suggested that the Canadian textile industry should have a tiny share of the Canadian market. In fact, we believe it should have a reasonable share, even a substantial share. However, we do believe that the Canadian textile buyer is now starting to pay a very heavy price indeed for the production of textile goods in Canada. We honestly believe that there are some very competent profit-making textile units in Canada. There is one two or three miles up the river from this chamber in the form of Kenwood Mills.

Senator Connolly (Ottawa West): I am sorry to interrupt, but you said the Canadian consumer is beginning to pay a higher price for textiles. Is that an absolute price or is that price relative to the prices of other goods in society? Everybody is paying more for bread, meat and everything else.

Mr. Dickson: Separate from the problem of inflation, we suggest that relative to other products the price being paid for Canadian textiles by the Canadian consumer, and I include textiles bought in Canada that have been imported as well because that is the local market, are higher and are inevitably higher. We have a shirt quota which is pushing up the price of shirts. We have a monitoring program on expensive shirts which pushes up the price of shirts. The whole idea of a quota is to reduce the supply and increase the price.

The Chairman: You have to look at this from the point of view that there are competing products on the market.

Mr. Dickson: Yes.

The Chairman: Which come from exports to Canada.

Mr. Dickson: Right.

The Chairman: So the consumer does have a choice.

Mr. Dickson: His choice is limited with the application of a quota, we submit.

The Chairman: Your point is that the quota is not reasonable.

Mr. Dickson: No. Given the opportunity—and we have our opportunity at this moment through this committee—we would offer this view to the government: Have a higher tariff if necessary, but quotas are a hideously expensive way of making the Canadian public pay.

The Chairman: Why?

Mr. Dickson: There are all sorts of reasons, Mr. Chairman. First of all, as we have said in the brief, the access to the world surplus textile production is sharply reduced

because people will simply not take the commercial risk of selling to Canada and finding the contract voided by a government restraint being suddenly imposed or by a quota which was known to be imposed suddenly being filled.

The Chairman: The alternative is the creation of jobs in other lines to replace the jobs that are lost in the textile industry.

Mr. Dickson: You will be happy to learn, Mr. Chairman, that we are not prepared to write off the Canadian textile industry by any means. We are trying to make it a more vigorous part of the Canadian commercial community without its present cost to the Canadian textile consumer. We would be delighted to see a healthy and vigorous textile industry, and indeed part of our brief to you and your colleagues makes some suggestions along these lines. As I have just mentioned, Kenwood Mills up the river here at Arnprior is probably one of the three best blanket makers in the world. I do not know their commercial results, because I believe—I don't know, but I believe—that they are a subsidiary of an American corporation. Similarly, Harding Carpets, based in Brantford and Milford, Ontario, are probably one of the best three carpet makers in the world; their accounts are public, and, apart from the normal ups and downs of commercial life, they have been very impressive indeed in recent years. We know of scores of excellent textile operations in Canada.

Senator Connolly (Ottawa West): I am impressed with what you say on that, but in view of the evidence we have had I am not impressed with the idea that the quota system as visualized by the International Textile Agreement is not a good thing. All the evidence we have had here, and that is all we go by, is to the effect that these voluntary bilateral restraint agreements have their value. Perhaps I can add to that. Why should Canada be saying no to that concept when the United States, when the British Chancellor, when the Common Market, when all of the other developed countries are adopting that system?

Mr. Dickson: May I say first that it is our view, and perhaps one which will be shared eventually by the industry and possibly your committee, that the application of a quota at the request of an industry or a section of an industry is an admission of commercial defeat. Through a variety of circumstances, whether it be high wages or bad management or a combination of both, or a variety of other commercial circumstances, they are unable to meet foreign competition despite the protection of a high customs tariff.

Senator Connolly (Ottawa West): I don't know that that is valid. I can see why you want to say that, but I do not know that that is valid in the real world with the underdeveloped countries trying to get secondary industry.

However, go ahead. I am sorry I interrupted you.

Mr. Dickson: It is perfectly all right. I was going to say that Canada is much more dependent on its international trade than the countries you have named. These quotas, and other restraints which are negotiated or forced upon our foreign trading partners, do not add to our international trading image, and detract from the efforts of the federal government, and the Senate of Canada, to promote Canadian manufacturing generally. Quotas should not be necessary on products that other people make better and more competitively than we do, and still manage to sell in Canada despite a high protective tariff and despite all

sorts of other regulations, consumer-oriented acts and labelling requirements.

We feel that a tariff is the effective way to deal with foreign exports in keeping them out of the country. A quota is, in our view, an admission of commercial defeat. It does not add to our international trading image. We are anxious to promote our exports, and a quota, we feel, is a frank admission that we are making, or attempting to make, something that should not be made, as we suggest in the brief. Why should we make cotton T-shirts in Canada when the Chinese can make them for 80 cents, packaged and ready for sale? What we should be making is things, in our view, in which there is a high skill content, and which are a relatively costly product, in a sense, such as carpets, or blankets, or certain fine quality cottons. We should not be attempting to compete with the developing nations, who need our funds to buy our resources and our manufactured goods.

Senator Molson: What about the United States and the European Common Market? Are they wrong, too? I do not know whether they wear T-shirts—they do in the U.S.A.—but should they not be in that business either, because their costs will not be equal to those of the People's Republic of China?

Mr. Dickson: This is true. Mind you, trade between the EEC and the U.S. and China have not developed yet. We have yet to see that.

Senator Molson: We have other alternatives to that.

Mr. Dickson: Yes, but not at prices that are as competitive, I suggest, as those of the Republic of China.

Senator Molson: There are Taiwan, Hong Kong, Singapore?

Mr. Dickson: Yes. They are modest factors in the textile world. Here in Canada we do not subscribe to the view that it is all the low-cost countries, by any means, that provide the competition to our industry.

Senator Cook: On that point, if we did buy the shirts which are produced at 80 cents, just to take a figure—it may be 60 cents or a dollar—who benefits? Is it the work people, who are getting little or nothing for their services, or the manufacturer who owns the plant in Hong Kong? Who gets the major benefit?

Mr. Dickson: I would say, under the free enterprise system, the owner of the factory is seeking a return on his capital.

Senator Macnaughton: May I repeat Senator Molson's question? Would you agree that the Americans accept a quota system?

Mr. Dickson: Not the way we have devised it here in Canada. I am not, I must assure you, senator, too familiar with the extent of their quotas, but the harassment that takes place under our system does not take place, from the advice we have from our members who are familiar with the U.S. textile market, under their system.

Senator Connolly (Ottawa West): That is not the evidence we have.

The Chairman: Well, you know, Mr. Dickson, adjustment of tariffs is a much more difficult thing to do.

Mr. Dickson: Right.

The Chairman: The establishment of agreements, bilaterally, setting up quotas, is an internal operation as between Canada and the particular country being dealt with. It is true that through GATT the agreements have to pass certain tests to show that they are reasonable restraints, so that you do have some check; but there is more freedom available to Canada, as a country, to operate under the international trade arrangements than there would be to adjust its tariffs.

Mr. Dickson: Yes, I agree. It is a quaint fact of life, Mr. Chairman and honourable senators, that many importers are highly enthusiastic about quotas. They are highly enthusiastic for the very reason that, provided they have a good historical performance, they will likely get a good current share of the quota that is established, and this, in a sense, is a monopoly. It gives them an immediate automatic share of the market.

The Chairman: I suppose that if you do not have quotas—and I must assume in that connection that the countries that sign these quota agreements are satisfied with them, or they would not sign them—and tariffs are too difficult, because of the length of time required for all the negotiations you have to go through, what you are doing is exporting jobs, are you not?

Mr. Dickson: Whether you are a net exporter of jobs in the medium term, I am not sure. As I say, it is our view that the Canadian industry in the textile field has enormous potential and, properly directed, could be a very viable industry, providing more work than it does now and contributing to Canada's merchandise trade abroad. We just think that the Canadian industry tries to be active in every part of the textile business: it tries to produce every type of garment, in every type of style, shape, quality, fibre, and so on. We believe there should be more specialization, more rationalization, and indeed, we understood, when Mr. Pepin first announced this textile policy in 1970, that a key part of it was to be the introduction of rationalization, specialization, and some export-oriented industry.

We have, as you have noted, Mr. Chairman, when reading our brief, made some suggestions along these lines in our concluding pages.

Senator Molson: On this question of quotas and tariffs, I would like to ask whether you are fully convinced that the price to the consumer would be better protected by a tariff than by a system of quotas.

Mr. Dickson: Yes, on balance, I am. The quota introduces all sorts of unknown commercial hazards and uncertainties.

Senator Molson: I am thinking of the ultimate price to the consumer. You may be right, and I would like to hear a little more about it; but I am wondering if a quota would necessarily increase the prices as much as a higher tariff.

Mr. Dickson: Well, we believe, Senator Molson, that a quota is more effective from that point of view than a 100 per cent tariff. It deters a large number of foreign exporters; it creates ill will; it places Canadian importers occasionally, and in fact quite often, in the commercial situation of breaking a contract; it discourages the Canadian importer from seeking new sources abroad for products which are under the quota, and everything is negative against the import of any product that is under quota. Of course, the quota sometimes is not used in the sense that

people are sometimes uncertain whether it is going to be used or not, and so do not buy.

Senator Molson: You think the price is going to go up correspondingly?

Mr. Dickson: Yes, because the supply is reduced, and this is the whole object of the quota—to reduce the foreign supply.

Senator Molson: You mentioned employment in the textile industry, which is a subject we have discussed here at some length, and you have referred to a figure of around 190,000 people. Of that number of employees, a good many would be dependent, to some extent, on imports, would they not?

Mr. Dickson: Oh, yes. Virtually every textile employee in Canada is dependent on imports for the raw material product. Is that what you meant?

Senator Molson: Yes, but some of the textile employees are concerned with the more basic raw materials, and presumably are not dependent on imports, although when you come to fabrics, and the clothing aspects, and so on, others are. Have you any idea how many of these 190,000 have jobs that are affected by the lack of or the existence of imports?

Mr. Dickson: No, sir, I do not.

Senator Molson: One other thing. You were mentioning the Canadian textile industry trying to be all things to all people in the textile field, and you mentioned earlier that the Canadian industry was not always competitive. You are not suggesting that we should get our wage rates down so as to compare with other countries in that respect, are you?

Mr. Dickson: No, senator. In fact, we do not want any textile workers to suffer in any way either through wage rates or unemployment as a result of importation, and we do not believe it should be necessary.

The Chairman: But you do agree that that is what is happening?

Mr. Dickson: We believe that that is the state of the industry and has been for nearly 10 years, since the post-war mini-boom. We would like to see the situation corrected, but we do not think that the application of quotas on top of high tariffs is going to do it.

The Chairman: You think that free imports would do it?

Mr. Dickson: No, I think a combined program of importing without restraint, other than normal tariffs, those products which the industry itself deems to be unprofitable and gradually remove them from the Canadian scene would be the start of a path towards rationalization and specialization which would make a very viable industry.

Senator Connolly (Ottawa West): What you are in effect saying in answer to the chairman, Mr. Dickson, is this, that it is much easier for the importer to operate knowing what the tariff says about the level of the tariff than it is for him to operate knowing that there has been an artificial intrusion into the market with quotas. Is that a fair statement?

Mr. Dickson: It is, senator.

Senator Connolly (Ottawa West): Let me follow it—and I am not trying to trap you. What the industry has been telling us so far is that there has been another kind of artificial intrusion into the normal course of trade, and that is the flooding into this market of such huge quantities of imports as to disrupt the Canadian market, not only on the sales end but on the production end, so that, really, do you not have to balance one off against the other somewhere?

Mr. Dickson: Yes, senator, I agree. And I can readily agree also that there will be occasions when textiles are sold here very aggressively and at a very competitive price. At the same time, we think this is a commercial hazard which has been slightly reduced for the Canadian industry with a series of tariffs, and that additional support should not be necessary, or that the company or companies concerned should specialize and get into another product where there is not going to be this dumping.

Senator Connolly (Ottawa West): I am afraid I have to come back to an earlier question: If this device of using the quota system which is recognized by the International Textile Agreement and which is used by other developed countries, such as the United States and those of the European Common Market, is available to them and is to be used by them under international agreements, then why should Canada say, "No, we won't do it; we will just use tariffs." As I said, Mr. Dickson, I am not trying to trap you.

Mr. Dickson: The International Textile Agreement provides for this type of measure, a quota or a related measure, strictly, as we understand it, on a temporary basis, and indeed the Canadian textile policy is based on assistance to segments of the industry, as they are reviewed, for a short or relatively short period of time. But we are now in the fifth year with the restraint on shirts, and every shirt in this room paid a tribute to the Canadian textile shirt-maker when the weaver bought his shirt.

The Chairman: But you know that when the government has to create jobs, then everybody in this room makes a contribution.

Mr. Dickson: That is true, and we suggest, with respect, Mr. Chairman, that the textile policy as it is being implemented at the moment imposes an additional tribute to that one in which we all participate in relation to jobs.

The Chairman: Would this be a fair way of stating the purpose and position of the International Trade Agreement—that it recognizes the inefficiency of tariffs to deal effectively with this problem of flooding foreign goods into the Canadian market and disturbing the home market, and that is the reason why the International Trade Agreement was first created and approved by certainly all the developed countries and a great many of the developing countries?

Mr. Dickson: I quite agree. But it is not intended to be a permanent way of life or a permanent form of protection for the industry of the country.

The Chairman: But who can say that except the countries concerned? They don't have to make an agreement. It is a voluntary bilateral agreement, isn't it?

Mr. Dickson: It is called "voluntary," but there is some reason to question the voluntary part of it, Mr. Chairman. Very often the exporting country is given no choice in the matter.

The Chairman: You are suggesting, I suppose, that they are told, "You will make this kind of an agreement with this quantity of restraint—or else!"

Mr. Dickson: Yes.

Senator Connolly (Ottawa West): It is not really as rough as that, is it? We want to be completely fair about this because we are a sort of tribunal here. There are provisions for escalation.

The Chairman: There are provisions for testing.

Senator Connolly (Ottawa West): Yes, but particularly for escalation so that the countries that voluntarily agree to these bilateral agreements know their quotas are going to go up. So there is some advantage to them.

The Chairman: There is a provision for escalating the quota each year.

Senator Cook: In your brief you make a statement on page 11:

We suggest too that Canadians are no longer prepared for the tedious work related to many sections of the textile industry . . .

Now we have been talking about the industry all along, but I think we should stress that the committee has heard from the leaders—and you say there are 190,000 Canadians involved—of the majority of those 190,000 people, and they have made two or three points which to me are very impressive. One is that the average rate of wages in the Canadian textile industry is as high as anywhere else in the world, if it is not the highest. Point number 2 is that they have lost, over the three or four years, a very sizeable number of their members through unemployment. And their third point was in making a very strong plea to this committee that the Canadian government should take whatever steps are necessary to ensure for the Canadian textile industry a reasonable, constant, more or less firm share of the Canadian market so that their jobs would have some stability and their careers would not be interrupted, as it were, in midstream with the result that they would have to go some place else. But with everybody talking about higher technology and this sort of thing, nobody can tell them where else to go. I just wanted to make the point that we have heard these things, not only from the industry but from the very well reasoned statements of the leaders of these 190,000 people.

Senator Macnaughton: Mr. Chairman, I have read this brief with very considerable interest, and I am very much impressed with the skill of the witness. I am trying to get the thrust of your argument. Mr. Dickson, and I am going to read you certain excerpts to make sure that we have it. On page 9 you say;

The industry's constant obsession with their right to produce any of a wide range of textile products and then aggressively seek and often secure protection deemed necessary for survival reflects, in our opinion, an unfortunate digression from the accepted concept that manufacturers the world over should only produce what they can sell on a competitive basis. The present thrust of the pleas to the federal government for added protection is a desire by the industry for the benefits of a state-controlled economy with none of the disadvantages.

Then if you turn to page 11, a little way down the page you state:

The Canadian industry in our view must learn to adapt to changing world conditions and not persist in producing products that Canadians do not want, at prices they do not wish to pay.

I take it that it is your conclusion which appears at page 12:

The success to date by the Canadian textile industry in acquiring the outrageous protection now extant may also have a domino effect on other sectors of Canadian manufacturing. There is already substantial evidence that the success of the textile industry has prompted the footwear manufacturers to seek similar protection. There is more than a glimmer of a similar reaction from the Canadian electronics industry, and the start of a clamour from some sectors of the chemical industry. As a major trading nation Canada cannot afford the handicap that will undoubtedly follow industry programs of restraint along the lines now offered the textile industry.

That, I take it, is your thesis?

Mr. Dickson: That is our general thrust, senator; yes.

Senator Macnaughton: Neither I nor other members of the committee wish to be unfair, but you speak with such authority. Could you, as a professional man, shall we say, give this committee a list of those specialized products which you think Canadian manufacturers should produce, consequently saving their industry and its jobs?

Mr. Dickson: I would need some time to prepare such a list.

The Chairman: It would be satisfactory if you would have it sent to us.

Mr. Dickson: I will do so, Mr. Chairman. Certainly, carpets and blankets, for which Canada is quite famous, particularly Hudson Bay blankets which tourists cross the U.S.-Canada border to buy, are two areas that spring to mind.

Senator Barrow: Could you also prepare a list for us of items which should be discontinued?

Mr. Dickson: Certainly, senator. Here in Canada we do not have access to any great volume of textile raw material. I believe this is pretty well accepted by the industry. As far as we can ascertain, the only artificial fibres made here now relate to the nylon family. The acrylics, which are petrochemical-based, as you know, are all imported. So we do not have a local source, such as iron ore for making steel, and are therefore handicapped immediately. We suggest an emphasis by the industry of upgrading their products to the more expensive lines that have higher labour content, the more expensive items. We should not be attempting in our field to make singlets and vests if someone else can do it better and is prepared to buy our goods. We should not be making cheap cottons, but expensive cottons, items that people want to buy that are styled, attractive and have been exposed to an international market but are still competitively priced.

The Chairman: You mean we should leave . . .

Mr. Dickson: The junk.

The Chairman: The lower side of the consumer market for the importers.

Mr. Dickson: To offer a world selection, Mr. Chairman, to the Canadian consumer, the Canadian exporter and the Canadian worker who has put his work into our exports and deserves the most competitively low-priced textiles in the world.

Senator Macnaughton: And you suggest a Swiss industry specialization approach.

Mr. Dickson: Yes, senator, and we understood that this was to be a very firm part of the original textile policy which was introduced in the House of Commons by Mr. Pepin in 1971.

Senator Connolly (Ottawa West): I think, Mr. Dickson, that at page 10 of your submission perhaps the case is made for the importance of the import side of this industry insofar as Canada is concerned. There you say that:

... for the last five years in excess of 50 per cent of the Canadian market, 59 per cent in 1972 and 54 per cent in 1975. On some products the share of the Canadian market is as high as 82 per cent (rayon square yards, 1975) and the lowest share of the market is 25.1 per cent (polyester broad woven fabrics, 1975).

Mr. Dickson: Those are Canadian industry figures for this share of the market.

Senator Connolly (Ottawa West): Yes; that is what the Canadian industry now uses, so that the difference is supplied from abroad by the importers?

Mr. Dickson: Yes.

Senator Connolly (Ottawa West): Which, to me, means that the Canadian market cannot be satisfied by Canadian production by the Canadian industry, and relies, due to the forces in the marketplace, upon imports for a considerable proportion of its requirements.

Mr. Dickson: That is correct.

Senator Connolly (Ottawa West): That being the case, I take it the conclusion is, if conditions remain relatively the same, that we will always have to have an import industry in textiles in this country?

Mr. Dickson: Yes; I would agree to that.

Senator Connolly (Ottawa West): And, of course, any industry in a country such as this, particularly, should be able to look forward to growth in absolute terms, if not in proportionate terms.

Mr. Dickson: Yes.

Senator Connolly (Ottawa West): It seems to me that once you set those figures out you are establishing the validity of the import side of the textile industry in Canada. You therefore have something upon which you can come to this committee and say, "This is not only important, but it is necessary." I would like you to tell us, if you could, something about the importance of the quality of those imports; something, also, about the variety of those imports. I was going to say, something also about the necessity of the imports, but I think the figures themselves demonstrate that there is at least this necessity.

Mr. Dickson: Yes. Responding to that, Mr. Chairman, may I say first that virtually the entire scope of all textiles is part of the total market through imports.

Senator Connolly (Ottawa West): Every kind of textile is imported?

Mr. Dickson: Every kind, yes.

Senator Connolly (Ottawa West): Even though some are manufactured in Canada?

Mr. Dickson: Yes. There are certain areas in which, as I have mentioned, Canadians are very good. For instance, with respect to carpets I have named a company and with respect to blankets I named another company. Where Canadians are not very good, in our view, or in the opinion of the consuming public, which is more important, is cotton, for example. The world's best manipulators are now manufacturers of cotton—the Americans. No one else can handle the raw cotton fibre better, with style, "pizazz," design, than the Americans. The British have a tradition in woollen worsteds, probably the best tradition in the world. The European manufacturer, copied to a degree in recent years by the Far Eastern countries, has a facility for sports and outerwear which appeals to the Canadian consumer in that category that is looking for something different. These are all parts of the import scene and offer the Canadian what we believe to be a rightfully wide choice to purchase. They are usually and mandatorily, as the chairman advised you prior to our formal presentation, required to be clearly marked as to the country of origin, unless an appropriate Canadian content has been added following import into Canada. There is never any doubt in the Canadian's mind as to whether he is buying Canadian-made garments or Canadian-made cloth, or foreign cloth. He will on occasion, very often due to imposition of tariffs and the after effects of quotas, willingly pay a premium for the purchase of the foreign article in which he happens to be interested.

I hope I have answered your question to your satisfaction.

The Chairman: I think, on that point, Senator Molson was telling me about going into a shop in Montreal. I think he mentioned a Van Heusen shirt. On the inside of the shirt it said "Made in Hong Kong." It was enclosed in a plastic cover, and stamped in large letters on the plastic cover was "Made in Canada."

Mr. Dickson: Most unfortunate. That is most unfortunate. However, let me give an example which we understand to be correct, Mr. Chairman, on the effects of quota. Last year a Canadian garment manufacturer is alleged to have wanted to purchase a certain fabric which turned out to be under quota. He turned to his American associates—indeed, his parent—and said "This fabric is under quota. We would like you to make the garments. Could you buy it for us in the Far East"? The American parent did just that, had the garments made up, and then offered them to a Canadian subsidiary saying "We have these garments ready for you from this quota fabric." A discussion then ensued as to what price the Canadian factory would get from its customers for these particular garments, and it was ascertained that with our tariff the garment could be sold more profitably in the United States; and very quickly an agreement was reached between the parent and the Canadian subsidiary for the parent to send a cheque to the Canadian subsidiary representing the profit on the shirts made from the fabric on the Canadian quota. That is the type of commercial chaos that quotas and their application in the monetary program can produce.

Senator Desruisseaux: Mr. Chairman, I am quite satisfied with the questions and answers which have been put

to and given by Mr. Dickson. I should have done this at the very start of the sitting, I believe, which is to attempt to clarify some things about the Importers Association. I have before me a list of witnesses appearing on behalf of the Canadian Importers Association Inc., and then separately there is a list of names, such as Mr. Murray E. Corlett, Q.C., appearing for the Canadian Textile Importers Association. Do I understand that Mr. Dickson represents Canadian importers as a whole?

Mr. Dickson: Yes.

Senator Desruisseaux: And outsiders from the Canadian textile...

Mr. Dickson: Perhaps I should explain that the Importers Association covers the import and promotion of the import of all products. The other committee, with which Mr. Corlett is shown as being associated as legal counsel, represents specifically textile importers from Montreal, I believe.

Senator Desruisseaux: But you are speaking for the Canadian Textile Importers Association?

Mr. Dickson: No, only the Canadian Importers Association.

Senator Desruisseaux: Thank you. Do you have a large number of members?

Mr. Dickson: Nearly 700 from coast to coast.

Senator Desruisseaux: Do you have department stores represented among those members?

Mr. Dickson: Yes.

Senator Desruisseaux: Could you say how many there are of those?

Mr. Dickson: Six.

Senator Desruisseaux: From what you have said, it is my understanding that you also have as members, manufacturers of textiles—or is that right?

Mr. Dickson: It is hard to say.

Senator Desruisseaux: Who import.

Mr. Dickson: Well, all textile manufacturers in Canada import something. We do not have any primary textile producers. We have some garment manufacturers who are members, but we do not have any textile primary producers.

Senator Desruisseaux: I will try to be brief, Mr. Chairman. What share of all textiles used in Canada—regardless of whether they are imported or produced here—would you say would be fair to reserve for importation to allow importations on?

Mr. Dickson: A figure should be established only for illustrative purposes. I think that commercial circumstances dictate what share of the market any industry should have, but between 50 per cent and 55 per cent would appear to me personally—I am not speaking for all of our members involved—to be a reasonable share for the Canadian textile industry of the Canadian market.

Senator Desruisseaux: Would you agree with testimony given here that it is around 60 per cent? I am referring to present imports.

Mr. Dickson: The figures which have been tabled before this committee from Industry, Trade and Commerce do not entirely bear that out, senator. They tend to indicate around 50 per cent to 55 per cent over the past five years as being the Canadian domestic industry's share of the market.

Senator Desruisseaux: Even the most recent ones?

Mr. Dickson: Yes. That is our understanding of the figures.

Senator Desruisseaux: The figure you mentioned would be for what year?

Mr. Dickson: 1975.

Senator Connolly (Ottawa West): I suppose the variation arises from the fact that in certain areas the percentage of imports is higher and in others it is lower.

Mr. Dickson: Yes.

Senator Desruisseaux: I mean, as an average for Canada.

Senator Flynn: Mr. Chairman, may I ask the witness, in connection with what he has said about the Canadian textile industry, whether he would say the same thing about other sectors of our economy? Would he say that industry is afforded too much protection?

Mr. Dickson: By far the textile industry leads in protection.

Senator Flynn: Can you give a specific example of the same situation?

Mr. Dickson: Bad, but by no means as bad from the importers' point of view is the footwear industry, which is rapidly approaching or is aggressively seeking the same type of protection now offered the textile industry.

Senator Flynn: Can you mention any specific cases?

Mr. Dickson: There is very vigorous application of those sections of the Customs Act, to which I referred earlier, on valuation, for example, where the Department of National Revenue has been prompted, pushed or pursued, or its action sought, to increase the value for duty on certain footwear. Certainly Italy and Spain also represent an example of the type of protection which the textile industry now has and which the shoe industry would like more of.

Senator Flynn: Would you say generally that we should specialize only in manufactured products which can compete on the world market? That is what you have practically indicated.

Mr. Dickson: Yes. As a matter of policy, our association states that any Canadian industry seeking assistance and help in the form of added protection should be aggressively export-oriented as well to ensure that their industry receives the very direct commercial benefits of world competition by exporting.

Senator Flynn: But you would agree that such a policy would have to be followed by other countries with which we have commercial dealings?

Mr. Dickson: Yes; and there is evidence—in fact, the whole matter before this committee is evidence of the enthusiasm of foreign exporters to aggressively seek a share of the Canadian market.

Senator Flynn: But we are captive of the methods used by other countries to some extent, would you not agree?

Mr. Dickson: It is possible, of course, that a Canadian textile exporter would face some form of harassment along the lines of quota or monitoring in another country, yes.

Senator Flynn: As importers, you are, of course, in favour of completely free trade?

Mr. Dickson: No, we are too realistic to be in favour of free trade.

Senator Flynn: I mean, in principle.

Mr. Dickson: No, not for a developing industrialized nation such as Canada—developing in the sense that it is trying to promote its manufacturing sector and its export field.

As you are probably well aware, the bulk of our exports, by far, are resource and agricultural products. The Government of Canada has made a very serious effort in the last 10 years to promote the sale of manufactured goods.

We believe that every industrialized country will naturally have to seek an export market for its manufactured goods to protect its employment. We have to aggressively seek it, and Canadian manufacturers, by and large, are the laziest exporters in the world; they will simply not go out and sell Canadian products, thereby reducing our unemployment situation. The markets are there. The Japanese plead with Canadian businessmen to go and sell them, but there is no sign of that taking place. At Mr. Pepin's urging, the Japanese have finally come to Canada to buy Canadian manufactured products, rather than Canadian manufacturers going out and aggressively seeking world markets.

Senator Desruisseaux: One final question, Mr. Chairman. I am wondering whether you are in agreement with the statement on a textile policy for Canada made in 1970 by the then Minister of Industry, Trade and Commerce, the Honourable Jean-Luc Pepin.

Mr. Dickson: Basically, we are in agreement with the policy as announced in 1970 by the Honourable Jean-Luc Pepin.

The Chairman: Honourable senators, I think we have ranged over the subject matter. On behalf of the committee, I will thank Mr. Dickson and his associates.

The next submission will be from the Canadian Textile Importers Association. Again, Mr. Corlett appears as counsel.

Mr. Murray E. Corlett, Q.C., Counsel, Canadian Textile Importers Association: Mr. Chairman, Mr. Kape will make the opening statement.

Before introducing the other representatives of the Canadian Textile Importers Association, I might clarify a point raised by one of the senators as to the status of these two associations. As Mr. Dickson pointed out, the Canadian Importers Association Inc. is a national association covering all importers, of whom a number of members are engaged in the importing of textiles. The Canadian Textile Importers Association is largely a Montreal-based group of importers of finished consumer products. We estimate that about 85 per cent of the Canadian imports of textile finished products, or finished goods, would enter Canada via one or more, or a number of the members, of this Montreal-

based group. In addition, I believe some of the Montreal firms concerned are also Canadian manufacturers.

Mr. Morty Kape, President of Triton Industries Ltd., will be the main spokesman. In addition, Mr. Daniel Freedman, President, Transcontinental Sales Co., is present, as is Mr. Harry Goan, Director, Amcan-Charter Imports Ltd., and Mr. Gerald Cohen, President, Popular Industries Ltd. In addition, Mr. Rodney Mercereau, who is a consulting economist in Montreal, has been assisting the association in the preparation of the brief which has been distributed.

With your permission, Mr. Chairman, I would like to note two small corrections to the brief submitted by the Canadian Textile Importers Association. First of all, we would like to have deleted section 6 on page 9 of the brief, which relates to the licensing requirements of certain provinces. Secondly, at the bottom of page 12 and carrying on into page 13 there would appear to be a quotation taken from the fairly recent publication of the Economic Council of Canada, *Looking Outward*, which has become somewhat of a controversial document. I would merely like to state that there was a mistake in the typing of that. It is not, as it would appear to be, an exact quotation from the report of the Economic Council, but is merely a summary of certain of the points expressed in that document, starting at page 62. As it appears, members of the committee might get the impression that it is an exact quotation. That was a mistake on our part.

The Chairman: Very well.

Do you have an opening statement, Mr. Kape?

Mr. Morty Kape, President, Triton Industries Ltd.: Yes, Mr. Chairman.

Honourable senators, we, the members of the Canadian Textile Importers Association, welcome this opportunity of appearing before the Standing Senate Committee on Banking, Trade and Commerce on the subject of Canadian textile problems.

Imports seem to have become a political football. What are the rules of this game? The government listens to cries of impending unemployment; the government subsidizes training of new sewing help because of the shortage of skilled sewers. The government listens to cries of open immigration to reinforce the diminishing supply of sewing help; we have heard from Canadian producers that the government offers retraining programs to textile personnel to help qualify them for better paying jobs.

Are these not the more acute problems facing the domestic producers? We can imagine the amount of tax dollars going into helping manufacturers, but why place an additional burden on 22 million Canadians—who are hard pressed for existence with today's spiralling inflation—with extra charges via quotas on imported garments that the American quota system would bring?

As we represent importers of made-up garments and are here primarily to support that portion of the import textile industry, we would like to go on record as advocating free trade, without restraint. However, we are realistic enough to know, and realize, that occasional catastrophes could occur and that, at times, temporary restrictions may become necessary. As Canadian garment importers, we would like to point out the pitfalls and problems that occur under the American quota system, both in that the American quota system only places restraints by country and does not really curtail imports, and that this system raises prices to the consumer unjustly. We offer as an alternative

suggestion a system of global quotas, when necessary, with provision for growth, with licence for import and not export quotas. This would eliminate all possibilities of transshipments, overshipments, and would eliminate the added cost to the consumer.

The Textile and Clothing Board's original suggestion that all global quotas be allotted to Canadians was by far the best solution.

We offer as a further suggestion one that we have made before the Textile Review Board, that, contrary to opinion, we work nine to 12 months ahead of actual retail selling and can furnish any government group with statistics of our purchases so that these can be previewed, giving Canada an opportunity to prevent disaster ahead of time, rather than making amends after it is too late and the patient is dead, or after he is cured and does not really need the medicine. We suggest the same thing be done by primary resources, by Canadian manufacturers, whether importing piece goods or garments, and by all retailers as well.

We believe that the garment business, whether basic or fashion, is constantly changing and there is a need to take a realistic view and compare apples with apples, and not fall prey to pressure groups who disguise figures to ensure extra profits and easier marketing, and eliminate competition that is necessary to ensure that the consumer receives value for his dollar. Competition encourages creativity, forces both primary sources and manufacturers to build better and better mousetraps rather than remain stagnant.

We offer as a further suggestion that Canadian consumers should not be taxed further by imposing restraints that would create shortages, or enable suppliers to raise prices due to extra quota charges that are placed upon goods based on pleas by primary sources who have budgets to invest in expensive persuasive tactics or by groups of successful businessmen willing to invest their time to strong and continued lobbies in order to secure long-term guaranteed profits and easy marketing. To avoid this the taxpayers' money could be invested in hiring qualified experts in the textile garment field who are well aware of the domestic and global markets, and who have no political obligations except for the wellbeing of Canadians who have a very serious problem on how to live with today's inflation.

We have heard of countless appeals on behalf of suppliers of double knit, who also have invested large sums in building plants and buying equipment. What is overlooked is that in most cases such investments were bad business ventures, because the demand for double knit never reached the potential expected, and is on a steady decline globally. A check of big exporters of prime products such as United States and Japan will support this statement. When demand is there the United States becomes a huge supplier of primary goods.

A glance at a few figures from Statistics Canada of September, 1975—the most recent ones I have available—shows that in categories 366/16, 19, 39, 45, 48, 99, and 367/89, the total imports in pounds was 54,489,659, of which the United States share was 34,075,587, or an average of 62.5 per cent of all imports in Canada. These figures were selected at random. However, we would like to know, with comparable labour charges, why Canadian prices are not the same as those in the United States. Certainly these figures indicate that a large percentage of textile imports to Canada are from the United States. The same reference book shows categories 373...

Senator Connolly (Ottawa West): Mr. Chairman, I am afraid that is pretty fast. Could you tell us what that matter you have just referred to means? What are you saying?

Mr. Kape: I think I am saying that with comparable labour charges in Canada...

Senator Connolly (Ottawa West): Tell us what is happening. I just could not follow it. I apologize for this.

Senator Asselin: Let the witness finish his brief. Give the witness a chance to explain what he is saying.

Senator Connolly (Ottawa West): But I am afraid he is going too fast.

Mr. Kape: I think I get to it later, senator.

Senator Connolly (Ottawa West): All right.

Mr. Kape: The same reference book shows 373/62, 81, 82, 375/19, 39, 45, and 377/65 and 73, total imports, for yard goods, were 746,555,870. The United States share of this was 28,955,426, or an average percentage of 62.2 per cent. Again we repeat, with wages similar to the United States and claims by primary sources in Canada that they can supply the Canadian needs, and they are endangered by imports, why don't they compete and eliminate large segments of the United States importations to Canada? If this did or could exist they could have strong export policies.

Senator Connolly (Ottawa West): I see what you are saying.

Mr. Kape: Based on figures supplied to me by the Van Heusen Corporation of America, which shows domestic and import statistics on all shirts for 1975, broken down by categories, the totals for domestic production were 28,201,000; the imports of shirts to the United States were 30,875,000, for a total of 59,076,000. By taking a comparison based on government monitored import figures in Canada and those reported in dozens by the Canadian manufacturers, we show a total of 3,128,000 dozen. If we use a ten-to-one ratio of population based on these figures, we find that American consumers today are using two shirts to every one in Canada. There appears here to be a high possibility of mistake in manufacturers' production reports, since those of imports are well monitored.

Mr. Chairman, I should like to show a few shirts, if this is permissible.

The Chairman: Yes.

Mr. Kape: I have here what we as importers call T-shirts. Under the restraint that now exists in Canada we must bring this type of shirt in under licence. These are four-button collar placket knit shirts, which garment importers feel are T-shirts, and are certainly being imported under the category of shirts, and under licence. I should like to know if this T-shirt is properly reported by all manufacturers, whether they belong to the shirt association or not. Of the few I have here, one is by an underwear mill; another is produced by a sweater and bathing suit company; the other one, I think, is primarily a T-shirt company.

If we were to compare the total production of Canadian manufactured goods in this category and add it to the shirts that are reported today, we will probably find that Canadian manufacturers own 75 per cent to 85 per cent of

the total market, which would be completely contradictory to figures shown in the Textile and Clothing Report on Men's and Boys's Shirts, dated February 11, 1976, which shows Canadian producers with 57 per cent of the market and imports with 43 per cent. Unless this can be put in proper context we may continue to find an extreme shortage of low priced shirts in Canada.

The basic rule of thumb learned by all retailers at very early stages is that as the unit price increases the unit share of market decreases. Again I have statistics, copies of which I can leave with you, supplied by the Van Heusen Corporation of America under the heading, "1974 Retail Dress Shirts." The summary reveals that shirts under \$7 retail had 61 per cent of the United States unit market share, and 38 per cent of the dollar share; shirts falling into the category of \$7 to \$10 retail had 28 per cent of the unit market share and 37 per cent of the dollar share; shirts over \$10 had 11 per cent of the unit share and 25 per cent of the dollar share. Those figures are not necessarily true for Canada, due to the imbalance between imported and domestic availability of shirts, due to the aforementioned possibility of error. No study has been made to date in Canada. However, we are certain the same basic law of retailing applies.

I should like to refer further to the Consumer Price Index of September, 1975, which shows the following percentages of increases on commodities: clothing, 4.7 per cent; food, 13.1 per cent; housing, 9.6 per cent; transportation, 12.5 per cent; health, 11.6 per cent; education, 9.3 per cent; tobacco and alcohol 12.4 per cent. Needless to say, imports have contributed to keeping clothing increases to a minimum, as they are well below those of other countries who impose severe restraints. There are definite shortages today in the boys', girls' and children's wear market in Canada. We have had countless requests from retailers to expand our lines in these areas, which are very competitive. This situation exists mainly because Canadian domestic suppliers, suffering from labour shortage and selling force, are gearing their production capacity, not to these low margin profit lines, but to more profitable men's and ladies' wear.

The survey of retail buyers will show very few domestic suppliers in these commodities, anywhere in Canada, placing a growing demand on importers. The imposition of quotas would create a situation where Canadian prices, which are currently at their highest level, would increase further due to shortage of goods on the market.

The lack of sufficient popular priced goods would in turn penalize the low income group, who would be unable to purchase higher priced items and will have to do with less clothing as a result, which in many cases are a necessity due to our climate and, in general, lower standards of living.

When fashion or needs dictate, "Mr. and Mrs. Consumer" buy. When this happens, we are convinced domestic producers' primary sources and importers are equally affected and prosper. Importers employ personnel directly and indirectly, pay large taxes, duties, supply many benefits to the Canadian consumer, and we feel are the prime contributors to the fact that the rate of inflation on made-up garments is the lowest of any category in Canada. Again, we repeat, 4.7 per cent.

We maintain that we provide the balance that enables Canadians to shop for and receive values they are entitled to. Let us ensure that this right is not taken from them.

The Chairman: Mr. Kape, you have heard the presentation by the Canadian Importers Association?

Mr. Kape: Yes.

The Chairman: Do you subscribe to the thrust, shall we call it, of their presentation?

Mr. Kape: There are many things we agree with. I would say most of them. I cannot recall all of them.

The Chairman: What is the major one you do not agree with?

Mr. Kape: I do not know whether this is through lack of knowledge or not, but one of the things that seem to be fenced here is a quota system. We are importers, as I say, of garments, and we can explain what happens to you when there are quotas imposed.

Mr. Freedman has a list of articles and what happens to these articles when the American quota system is used. I do not think the senators here are really and truly aware of what happens when quotas, under the American quota system, are applied. With your permission I would like Mr. Freedman to describe this to you.

The Chairman: They are effective, are they not?

Mr. Kape: No, sir, they are not: they do not diminish imports; they do not stem the flow of imports; it is a temporary stopgap.

It is done by country. For instance, if Hong Kong has a 100,000 dozen quota, they will ship that, and if Taiwan has not been put on the restraint list, Taiwan can ship freely until they are put on this restraint list. What it tends to do is shift the imports into Canada from country to country, until some day their list of countries on restraint may reach saturation.

The Chairman: I am talking about the U.S., and the information we have here is that whatever system is at work in the United States—and it is a quota system—they preserve about 85 per cent of the domestic market for the domestic producers. Do you challenge that statement?

Mr. Kape: I cannot challenge the statistics, but I can challenge the system because we are quite aware of the system.

The Chairman: How do you judge a system—by the results?

Mr. Kape: What we are suggesting is that the global quota system would be more realistic if the aim of this Senate hearing is to reduce imports. The American quota system definitely does not reduce imports. It reduces them by country only.

The Chairman: Overall, it does reserve 85 per cent of the domestic market for the domestic producer.

Mr. Kape: Mr. Chairman, I am not aware of the figures. I do know that it does not decrease the amount of merchandise being imported. I am not aware of their total statistics.

I also think that when you take their total domestic production into account, you have to be aware of the amount of primary textiles that they are shipping to Canada and all other countries in the world.

Senator Connolly (Ottawa West): Without revising the International Textile Agreement, perhaps what you are saying is this, as far as Canada is concerned; that there

should be an import restriction placed on, let us say, one category of textile regardless of where it comes from, or perhaps all categories of textiles, and then an allocation made to different countries.

Mr. Kape: We will produce, senator, facts for you to show that by allocating these quotas to the country, the Canadian consumer is being taxed unjustly.

Senator Connolly (Ottawa West): That is important to us.

Mr. Kape: We will show how the Americans pay premiums to, in many cases, not even the exporter of the product but to somebody who owns the quota by past performance via the quota broker. It is a commonly known fact that in the Orient, like the stock market, quotas are traded. They are bought and sold.

Mr. D. Freedman, President, Transcontinental Sales Co., Montreal, Canadian Textile Importers Association: Mr. Chairman, I would like to answer that question. I would explain to the committee how the restraint system works for the United States. There has been a lot said here in the various hearings about the restraint system in the United States, and it has been lauded as compared to Canada's.

I know there have been allegations here that if Canada were to adopt the system that they have in the United States, we would be much better for it here in Canada.

I will give you a brief history as to the way the system works in the United States. In the mid-1950s, Japan was the only country in the world which was the main source of supply of apparels. I am speaking now only of apparels. The United States was buying from Japan in large quantities of merchandise. Finally, they established quotas for Japan. When they established quotas for Japan, they moved to Hong Kong.

Senator Connolly (Ottawa West): Who moved?

Mr. Freedman: The United States importers started investing money and building factories and educating the people in Hong Kong to manufacture the garments which were under quota in Japan. When quota systems were established in Japan, they moved to Taiwan and then they moved to Korea and then on to Bangkok. The quantity of merchandise coming into the United States, yearly, was increased. There was no increase in garments coming into the United States.

At the present time, for example, they are buying freely from the People's Republic of China without restraints. There are no restraints there. At some time there will be restraints for China, and then they will move to Indonesia or other countries.

Senator Connolly (Ottawa West): You are talking about "they" moving?

Mr. Freedman: I am talking about the importers in the United States or merchandise coming into the United States. In other words, when quotas are applied in one country, then the industry is built up in another country by the importers in the United States.

Senator Connolly (Ottawa West): Do they supply the capital and training for this?

Mr. Freedman: In some cases they may supply the capital and the training. I know when the industry was built

up in Hong Kong, it was blood, sweat and tears; the merchandise was shoddy and there were a lot of problems.

Senator Connolly (Ottawa West): Who did it? Was it American capital that was doing it?

Mr. Freedman: Yes, I would say American capital was there in a substantial way.

The Chairman: You say the overall imports increased—that is what you are saying, is it not?

Mr. Freedman: Yes.

The Chairman: —because when they were put on a quota system in one country, they then moved to another country?

Mr. Freedman: That is correct.

The Chairman: Either the same people or other importers?

Mr. Freedman: That is right.

The Chairman: You say the net result of that was to increase the quantity over the volume of imports in the United States?

Mr. Freedman: That is correct.

The Chairman: Then there is a little problem in arithmetic that bothers me. If, overall, the U.S. figures show that 85 per cent of the U.S. domestic market is maintained for the domestic producers in the United States, then how do you correlate that to increasing imports, unless they are taking up the increase in consumption?

Mr. Freedman: I know it has been tabled here that the import share of the market is, I believe, 54 per cent, as compared to 46 per cent for domestic manufacturers.

Senator Molson: In Canada.

Mr. Freedman: In Canada. First of all, when we take the figure of 54 per cent, what is included in that figure? All of the cotton waste, all of the filament yarns, all of the grey goods for printing and the goods that go to the primary mills are included in this figure. All of the piecegoods going to the Canadian manufacturers are included in that figure. As the piecegoods are increased to the Canadian manufacturers to build up the economy here, then of course the import figure is also going to be increased. Then when you have the common denominator in pounds, that will create an upward bias when you compare imports with domestics. For example, you may bring in some cotton waste, which has little value, but in pounds it is exactly the same as expensive garments manufactured here in Canada. If you wish to have a realistic figure, the figure furnished by the Canadian Chamber of Commerce shows that for garments produced in Canada the import share is only 17.2 per cent. That is more realistic, because the import of garments as compared to the complete market is only 17.2 per cent. Compared to that, if you take all of the garments coming in from all of the Far East countries, such as Japan, Korea and Taiwan and so on, it only amounts to 2 per cent of the complete textile market. But that is comparing apples with oranges, in the same way as your 54 per cent does.

I would like to make just one other point regarding the restraint system in the United States and how it works. When you have restraints you have quota brokers, as there

are in every country. The price of the quota depends a great deal upon the demands, the expertise of the country involved, and so on. As an example let us look at the quota on trousers, which is category 238, I believe. For every dozen pairs of trousers there is a quota charged in Hong Kong to the U.S. importers of \$18 a dozen. In Taiwan it was \$12 a dozen. In Korea it was \$10 a dozen. But the American consumer pays for that. There is also a tendency to make the market competitive. Japan, for example, was not competitive because its labour force switched to electronics and Japan was not competitive in world markets. But because of the high quota charges in these other countries, the United States has suddenly become a competitive market for them and they have exported in the past three or four months over two million dozens of category 209 to the United States. So there are quantities coming in through the United States. So we should be aware of what can happen when we have a restraint system.

The Chairman: Mr. Freedman, all we know is that factories are closing in Canada, people are losing their jobs and they attribute this to the overflow in volume of imports into Canada. They also produce figures to support that argument.

Mr. Freedman: We can also produce figures, Mr. Chairman. I don't say that jobs are not lost in certain areas.

The Chairman: But up until you have come here we have had no one challenge those figures.

Mr. Freedman: Well, I challenge them for the simple reason that right now there is a great scarcity of labour for the domestic manufacturers. One of the biggest problems today is that they cannot get enough help. Don't forget that our textile wages, although among the highest in the world, are still not much over the minimum wage when compared to wage levels in other industries.

The Chairman: So you have the situation that people are losing their jobs, factories are closing and yet there is a labour scarcity.

Senator Cook: Let us get this straight. The average wage is about \$1 an hour over the minimum wage.

Mr. Freedman: I am not an expert when it comes to minimum wages.

Senator Cook: The minimum wage is about \$2.50.

Senator Molson: It is \$2.80.

Senator Cook: And the average wage is about \$3.50.

Senator Molson: In manufacturing it is \$3.21.

Senator Cook: If I understood you when you were talking about quota brokerages, is that not merely a shift of profit? In other words, when an importer in the United States imports a garment, it will be sold at the retail level approximately at the current price for a garment of that nature. Therefore, if he has to pay some money to get the quota it just means a shift of profit. It does not affect the consumer very much.

Mr. Freedman: Oh, yes, the consumer pays. If he has to pay the \$18...

Senator Cook: He has to pay that anyhow.

Mr. Freedman: But suppose the garments are \$30 a dozen but the importer has to pay \$48 a dozen. He calcu-

lates his landing charge based upon the \$48 a dozen and the selling price is set accordingly. Eventually the American consumer pays that \$18 a dozen.

Senator Cook: But water finds its own level. So the selling price at the retail level will be pretty well governed by the price charged for the domestic garment.

Mr. Freedman: This is quite true, because the quota charged, although it is \$18 today, may be \$3 or \$5 two years from now, depending on the situation in the market.

Senator Molson: Is there any necessity for those quotas to be transferable from one importer to another?

Mr. Freedman: Do you mean from this side or from the export side?

Senator Molson: From this side.

Mr. Kape: Mr. Chairman, these quotas are self-restraint quotas and are allocated by the exporting governments. They are based normally on past performance.

The Chairman: The quotas are by country.

Mr. Kape: Right.

Senator Molson: How can there then be a quota broker who transfers this quota from one to another?

Mr. Freedman: We are talking about the exporting country. It is transferable in the exporting country. As a matter of fact, there are some manufacturers who have actually given up business and are not manufacturing at all.

Senator Molson: You mean they have become brokers.

Mr. Freedman: That is right. I know one who has moved to Canada, but he still has his quotas in Hong Kong and he has an income of half a million dollars a year just from quotas. But who is paying for that? The American public is paying for that.

The Chairman: The problem concerning me is the problem I stated to you, namely, that I take as a fact that factories are closing and people are losing their jobs; and I have to assume that the owners of the factories would like to keep operating and I have to assume that the people who have lost their jobs would still like to be working. So you cannot say that labour is holding back or that the employer is holding back. Therefore the only thing left is the market.

Mr. Freedman: I believe an efficient manufacturer today does well. I am talking now of garment manufacturer only, not primary mills' because that is not my field. I am talking only of garment manufacturers and I know that when it comes to manufacturing garments, the efficient garment manufacturers are doing well today. A survey of 170 companies was made recently and the statistics show that it has all been profitable.

The Chairman: The textile industry is made up of more than garment manufacturers.

Mr. Freedman: I am afraid that that is out of my field. I am talking now only of garments.

Senator Smith (Colchester): Mr. Chairman, I wonder if the witness is aware of any item in the garment field which is subject to quotas now.

Mr. Freedman: Yes.

Senator Smith (Colchester): I wonder if he could indicate what that is, and what the effect upon Canada and Canadians has been as a result of that quota.

Mr. Freedman: We have right now a world global quota on shirts. From this global quota 25 per cent is allocated to additional importers and 75 per cent is allocated to the exporting countries. As far as the 25 per cent is concerned, that is in the hands of the importers. They can buy from any country in the world with this 25 per cent. Regarding the 75 per cent, that is, in the exporting countries, there are quota charges.

The Canadian quota of shirts, for example, in Taiwan, say, a year ago, was being sold for around 50 cents a dozen, but today it is worth probably around \$3.50; so in other words, when the importer uses his own allocation the consumer benefits, because he gets a straight deal. Where the importer has to buy from countries where the quota is in their hands, then, of course, we have to pay the premium. Not only this. I can quote in my own personal case, an instance in which we were buying from a firm in Hong Kong. We came to them this year to buy our shirts from their quota, and I know they have not sold to any other Canadian supplier, and they said, "We have not got that quota any more," because they traded it with someone for an American quota, under which they can get a high price, so that we did not buy shirts at all from this particular country.

Senator Smith (Colchester): What about the other side of the coin? How did it affect Canadians who make shirts, for instance? Did it allow more Canadians to be given work?

Mr. Freedman: My own personal opinion is that as far as the Canadian shirt manufacturers are concerned, they are all doing well. They have upgraded the type of shirts that they are bringing in. They are now trying to manufacture the low end, and I think that because of this they are successful.

Senator Smith (Colchester): Yes, but are they employing as many people as they would employ if there were no quotas, or vice versa?

Mr. Freedman: If there were no quotas at all?

Senator Smith (Colchester): What I am trying to get you to deal with is this: has the imposition of a quota on shirts resulted in more, or less, employment of Canadians in Canada?

Mr. Freedman: That is a hard question. I would venture to say that even if there were no quotas the production of shirts made by the Canadian industry would not be at a much lower level.

The Chairman: Did the board not find that the domestic industry in shirts was being injured by the imports?

Mr. Freedman: This was their finding, and this was the reason why we had the quotas imposed.

The Chairman: Well, on the one hand we have the board finding that the industry is damaged or injured, to the extent that they establish quotas, while on the other you say that employment has not suffered. I find those two statements difficult to put together.

Mr. Freedman: Well, firstly, when quotas are imposed, there is a certain input by the manufacturers claiming

injury. In some cases this may be true. In many cases—in most cases—I think it is basically because they are manufacturing their own merchandise. As far as unemployment in the industry is concerned, I still maintain that there is a definite shortage of labour.

Senator Molson: How do you explain that there is a definite shortage of labour when we have the highest unemployment figures we have ever had? What is your rationale for it?

Mr. Kape: Is the unemployment specifically in the sewing force of the Canadian manufacturers? Or is it general throughout the country? This is what has to be analyzed. We do know that no matter where we go anywhere in the city of Montreal there are "help wanted" signs. At one of the hearings before the Textile Review Board we used hundreds of pictures of these signs. We also had statistics taken from the Montreal papers as to the number of people being advertised for in the "help wanted" columns. We know for a fact, too, that Canadian manufacturers have been wanting immigration opened up so that they can get more sewers. Who know these things. Why would they look for more immigration to get additional sewers if there were an abundance of these people out of work?

Senator Smith (Colchester): With reference to the quota for shirts, did you have the opportunity to present to the board all the evidence you could gather up to show that the manufacturers were not being injured?

Mr. Kape: There is one thing that is not taken into consideration at any of these hearings. I believe the first hearing in reference to shirts, if I am not mistaken, was in 1971. The shirt industry was suffering at that point. Approximately a year and a half later the sports shirt boom occurred in Canada and the U.S., and Canadian manufacturers could not even get the merchandise out of their production lines fast enough to suit the retailers in Canada. The retailers were complaining about late deliveries, and non-deliveries, and this can be carefully monitored and checked. We know that right now this boom is over—it stopped just about three or four weeks ago—and right now the Canadian manufacturers are going to have to come up with another vehicle to replace this fashion that has died.

Getting off shirts for a moment, we know from an article in yesterday's *Gazette* that for the last 13 weeks Wabasso has increased its volume tremendously, along with their profits, rather than showing a loss. They say that this was done on denim. We do know that more denim has come into Canada in the last three, or four, or five months than ever before. The importers sold it well, the domestic manufacturers sold it well, and prime sources sold it well. We keep overlooking in all these discussions what the consumer is demanding. What does the consumer need? This changes constantly.

The Chairman: Those quotas are still operating, are they not?

Mr. Kape: They are still operating.

The Chairman: But you know, too, that the board reviews its recommendations every year, and if there was a change as a result of their review, showing improvement, one would expect that to be reflected in the quotas. Have the quotas been reduced?

Mr. Kape: The quotas, I believe, have not changed. The minimum price that a shirt could be brought in for quota-free has changed from \$30 a dozen to, I think, though I am not sure, \$43 a dozen on woven and from \$33 to \$47 on knit.

The Chairman: When you say "quota-free," you mean the amount of the quota.

Mr. Kape: No. I am talking about the f.o.b. cost overseas. If it was in excess of this price it would not be applicable to quota or licence.

The Chairman: If there is a quota for a country of 100,000 dozen, is that a free quota?

Mr. Kape: It is not free in terms of money.

The Chairman: I am not talking about dollars. I am talking about being free to bring that quantity in.

Mr. Kape: Yes. I could also add that the quotas that do exist have not been brought in in their entirety.

The Chairman: Well, maybe that is good. I do not know.

Senator Smith (Colchester): May I just pursue a point I was trying to consider? I am a little at a loss to know how the increase in the sale of jeans is likely to relieve the injury to the shirt manufacturer, if in fact he was suffering any injury? Are you relating jeans to shirts?

Mr. Kape: I am relating to the fact that the market for fashion garments does change.

Senator Smith (Colchester): But very few people wear a pair of jeans instead of a shirt.

Mr. Kape: The relationship is that when an item is in demand, the domestic producer and the importer do well. However, if an item is not in demand, neither the importer nor the domestic manufacturer is going to do well. There is no way you can sell garments to people who do not want them.

The Chairman: Or to people who won't wear shirts.

Senator Molson: A topless society!

Senator Smith (Colchester): It seems to me to be impossible to say with any kind of certainty at all that a sudden increase in the demand for jeans will hurt the shirt manufacturer, and surely this is a relevant consideration in thinking whether the quota for shirts would be a proper thing to have?

Mr. Kape: Prior to the statement on demim and jeans, senator, I had made the statement that the Canadian shirt manufacturer enjoyed a boom for about a year and a half or two years where it did not matter if there were quotas or no quotas. They simply could not supply. What I am saying is that the market is constantly changing, and we have to be aware of these changes in advance. I have also read that we would be willing to supply information nine months to 12 months ahead of time as to what we intend to purchase, because we do purchase in that period.

Senator Smith (Colchester): Nobody would dispute your argument that the demand of the consumer changes, and sometimes with great rapidity. But, surely, the thing that concerns the shirt manufacturer is not whether the demand for jeans increases, but how the demand for shirts increases or decreases?

Mr. Kape: I do not think the demand for shirts is ever going to increase or decrease unless the Canadian manufacturer creates that demand by constantly changing his fashion to suit the needs of the public. I do not think when we are talking in terms of shirts that people buy the bare minimum amount of shirts they require; shirts are part of the fashion industry and what we do say is that the low-cost shirts are not available in adequate supply in Canada. This is what we are saying.

Senator Connolly (Ottawa West): I guess what you are trying to say to us in this—and I think you are making the point—that it is one thing to say to impose textile quotas, but you cannot simply say to impose textile quotas in the abstract and with numbers. You have to take into account the demands of the Canadian market, and it is the specific product that is in demand that has to enter into consideration as well as the quantity of textiles.

The Chairman: But the purpose of the board, with its annual review, is supposed to reflect that possibility. If it does not do that, or if it does not do it fast enough, then maybe there should be some change.

Senator Cook: The board would have to go to the movies to see the different styles in shirts.

The Chairman: Or hire a fashion adviser.

Senator Molson: I suppose that the effect on the consumer of the style change is very much greater here in Canada, as compared to other countries, because of the enormous number of American publications plus American broadcasting of all sorts that we get. In other words, the Canadian is probably responding to the style changes in the United States more than any place else in the world, whereas the manufacturer for the Canadian part of the market, such as it is, is here.

Mr. Freedman: I would say that the Canadian manufacturer is up to date with world fashion. I think that actually the Canadian manufacturers here in Canada are the fashion leaders in the world. I know for a fact that there are manufacturers in the United States and from around the world who come to Canada to look at Canadian fashions, and the manufacturers who are creating these fashions are successful. These creators are having a difficult time getting help.

Senator Molson: That is a very interesting point. Is there any particular centre in Canada where these styles that are respected elsewhere are produced?

Mr. Freedman: There are many. It is also widespread in that it extends to children's wear, ladies' wear and various other sectors.

Senator Connolly (Ottawa West): Does that increase exports of Canadian fashion goods?

Mr. Freedman: This is something which I myself cannot understand. I think this is a mistake on the part of the Canadian manufacturers. There should be a drive to export their fashions. Some of them are in fact exporting their fashions.

Senator Connolly (Ottawa West): When you talk about fashions you include, I presume, not only the design of the garment, but also the design in the fabric of the garment.

Mr. Freedman: Well, I am referring mainly to the design of the garment. Of course the design of the fabric would enter into it, as would the colour, quality and style.

The Chairman: And the patterns.

Senator Macnaughton: That fashion centre is chiefly in Montreal?

Mr. Freedman: And in Winnipeg.

Senator Connolly (Ottawa West): Montreal is the fashion centre of the world, obviously.

Mr. Corlett: Mr. Chairman, a great deal of the discussion has centred around the subject of quotas, and quotas on shirts in particular. Mr. Kape made mention of the fact that in some cases countries that were subject to quotas imposed by Canadian authorities were not meeting their quotas. I thought it might be useful to know, and perhaps Mr. Cohen of Popular Industries, could give the answer from his experience, what countries have been in that position where their exporters were not even meeting the quotas permitted by the Canadian government and why did these exporters get into that position.

The Chairman: But Mr. Kape was going to send us a list.

Mr. Kape: It has been published by the review board, I think.

The Chairman: Why don't they fill out their quotas? Is it on account of price?

Mr. Gerald Cohen, President, Popular Industries Ltd., Canadian Textile Importers Association: That is right, Mr. Chairman, particularly from Japan where there is about 350,000 to 400,000 dozen shirts a year that have been included in all the figures given so far as being shipped to Canada, but in fact they are not really shipped to Canada. With their prices, all the exporters in Japan admit themselves that they cannot compete.

The Chairman: When you say they are not shipped to Canada, what do you mean by that?

Mr. Cohen: They are not shipped—period.

The Chairman: They do not find their way into the Canadian market?

Mr. Cohen: That is correct.

Senator Molson: You mean these are quota figures but not shipment figures?

Mr. Cohen: That is correct, senator.

Senator Molson: How do the shipment figures compare with the quota figures?

Mr. Cohen: In most cases where the situation covers desirable merchandise, the quota figures are used up, naturally. If you take the situation some time ago when sweaters and knitwear in general were put on quota from Taiwan, in no way could the Canadian consumer accept as much as was defined in the quota because it was not appropriate. I think Mr. Kape gave a valid example as to how it can be done reasonably.

The Chairman: I do not understand the complaint made here by the industry relating to the amount or the volume of the quota. I think what they have been saying is that there should be quotas to limit the amount that comes in.

Mr. Cohen: Well, they are basing their facts on historical records that quotas do help them. We say that quotas do not help them.

The Chairman: I see. Then it is a straight contest between you and the domestic producer who said quota is the only quick way of protecting us, and the board says, "Yes, you have been injured and we recommend the quota," so they have the board on their side.

Mr. Cohen: Well, no, I would not say that. I think the board is being really fair; otherwise we would not know about these figures.

The Chairman: We have heard evidence of representatives from the board and the Department of Industry, Trade and Commerce and have received copies of the reports in which the figures upon which the board is basing their finding are set out. In some cases the department says that they have not acted right away because there was further checking to be carried out. So must we not assume that they know their job?

Mr. Cohen: Yes, but they are talking about future and different items.

The Chairman: It is hard to deal in the past.

Mr. Cohen: Well, we must deal in the past in the case of shirts because, in effect, we are pushing the prices up.

Senator Cook: What happened about that particular quota case with respect to Japan?

Mr. Cohen: Japan was at 75 per cent, which represented 350,000 or 400,000 dozen shirts.

Senator Cook: To Japan?

Mr. Cohen: Yes, and I think 1,317,000 of the shirts were...

Senator Cook: Stick to Japan; what kind of shirts and what happened?

Mr. Cohen: Men's and boys' shirts. Their prices did not compete with the Canadian market.

Senator Cook: In other words, it did not suit them to fill the quota.

Mr. Cohen: That is correct.

Senator Cook: Go on.

Mr. Cohen: So that much less shirts come in, which should give an advantage to the Canadian producers and they should not really be in a position to complain. At least they are being helped by that amount but, in effect, they are complaining anyway.

Senator Desruisseaux: Mr. Chairman, as I listened to the witness give his testimony I was reading the inquiries and views of the Textile and Clothing Board which in 1971 on men's and boys' shirts made the finding that it had found serious injury. They then made some recommendations and in 1973 asked for a continuation of the quota, recommended with some liberalization of imported men's shirts. In 1974 they recommended continuation of the quota until November 30, 1974 and quantities permitted under quota to increase five per cent for March 1 to March 31, 1974 and 10 per cent from June 1 to November 30, 1974. In 1974 they recommended shirts be retained on the import control lists. There is a paragraph or two that permits be issued, but

subject to restraint arrangements being made in the case of Hong Kong, South Korea, China and Taiwan. In 1976 the report has not yet been released. Although I am a layman, it surprises me to hear testimony along the lines you have just given if we are to rely on the board.

Mr. Cohen: The board can furnish you with the actual statistics by country, because more countries than that are involved with shirts.

The Chairman: Are there further questions?

I wish to thank you very much, Mr. Kape and Mr. Freedman. This concludes our hearing for today, although I had thought of trying to fit Mr. Armstrong in for sum-

mary and reply. However, I do not think it would be fair for him to do this at this time. Our next meeting will be at 9.30 in the forenoon on Wednesday next, when we will sit all day; and then we will hold a further meeting on Thursday. So, some time during the day on Wednesday we will intervene in the proceedings and hear Mr. Armstrong.

Senator Desruisseaux: I have just been advised, Mr. Chairman, that since we received this report from the Textile and Clothing Board the 1976 report has been released.

The Chairman: We can get that.

The committee adjourned.



Government
Publications

FIRST SESSION—THIRTIETH PARLIAMENT
1974-76

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
**BANKING, TRADE AND
COMMERCE**

The Honourable SALTER A. HAYDEN, *Chairman*
The Honourable ALAN A. MACNAUGHTON, P.C., *Acting Chairman*

Issue No. 91

WEDNESDAY, JUNE 9, 1976
THURSDAY, JUNE 10, 1976

Fifth Proceedings on Bill C-58 intituled:
"An Act to amend the Income Tax Act"

(Witnesses—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Austin	Lafond
Barrow	Laird
Beaubien	Lang
Buckwold	Macnaughton
Connolly	Manning
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
*Flynn	Smith
Haig	(Colchester)
Hayden	Sullivan
Hays	Walker—(20)

**Ex officio* members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, April 6, 1976.

“Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Davey, seconded by the Honourable Senator Lang, for the second reading of the Bill C-58, intituled: “An Act to amend the Income Tax Act”.

After debate, and—
The question being put on the motion,
The Senate divided and the names being called they were taken down as follows:—

YEAS

The Honourable Senators

Argue	Lafond
Austin	Langlois
Benidickson	Lefrançois
Bourget	Lucier
Buckwold	Macnaughton
Cameron	McDonald
Carter	McElman
Cottreau	McGrand
Croll	Michaud
Davey	Molgat
Denis	Neiman
Duggan	Norrie
Eudes	Petten
Forsey	Riel
Fournier (de Lanaudière)	Riley
Fournier (Restigouche-Gloucester)	Robichaud
Giguère	Rowe
Godfrey	Smith (Queens-Shelburne)
Goldenberg	Sparrow
Graham	van Roggen—40.

NAYS

The Honourable Senators

Choquette	Macdonald
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Cook	McIlraith
Desruisseaux	McNamara
Flynn	Phillips—9.
Grosart	

So it was resolved in the affirmative.
The Bill was then read the second time, on division.
The Honourable Senator Davey moved, seconded by the Honourable Senator Sparrow, that the Bill be referred to the Standing Senate Committee on Banking, Trade and Commerce.
The question being put on the motion, it was—
Resolved in the affirmative.”

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, June 9, 1976
(122)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade & Commerce met this day at 9:30 a.m.

SUBJECT: Bill C-58—"An Act to amend the Income Tax Act".

Present: The Honourable Senators Hayden, (Chairman), Austin, Barrow, Beaubien, Cook, Desruisseaux, Flynn, Haig, Lafond, Laird, Lang, Macnaughton, Manning, McIlraith, Molson, Sullivan and Walker. (17)

Present, not of the Committee: The Honourable Senators Davey and McNamara. (2)

WITNESSES:

WBEN, Inc.; Capital Cities Communications Inc.; and Taft Broadcasting Company:

Mr. Leslie G. Arries, Jr., President, WBEN, Inc.;
Mr. Philip Beuth, Vice-President and General Manager, WKBW-TV;
Mr. Earl Beall, Vice-President and General Manager, WGR-TV;
Mr. Thomas Murphy, Chairman, Capital Cities Communications Inc.; and
Mr. Allan R. O'Brien, Counsel.

Channel SeventyNine Limited, (CITY-TV):

Mr. Moses Znaimer, President; and
Mr. G. Jrafstein, Counsel.

Following the opening statements the witnesses were examined by the Committee in its continuing study of the said Bill

At 12:20 p.m. the Committee adjourned until 2:30 p.m. this day.

2:30 p.m.
(123)

At 2:30 p.m. the Committee resumed its consideration of Bill C-58.

Present: The Honourable Senators Hayden, (Chairman), Austin, Barrow, Beaubien, Cook, Haig, Lafond, Laird, Lang, Macnaughton, Manning, McIlraith, Molson, Sullivan and Walker. (15)

Present, not of the Committee: The Honourable Senators Bell, Davey and van Roggen. (3)

WITNESSES:

KVOS-TV (B.C.) Limited, Vancouver:

Mr. David Mintz, President; and
Mr. Royce Frith, Counsel.

Advertising Agency Association of British Columbia:

Mr. Peter Ross, Vice-President, Foster, Young, Ross Anthony and Associates Ltd.; and
Mr. Steve Vrlak, President, Vrlak Robinson Advertising Ltd.

Following the opening statements the witnesses were examined by the Committee in its continuing study of the said Bill.

At 4:50 p.m. the Committee adjourned until 9:30 a.m., June 10, 1976.

Thursday, June 10, 1976
(124)

At 9:30 a.m. the Committee resumed its consideration of Bill C-58.

Present: The Honourable Senators Austin, Beaubien, Cook, Flynn, Haig, Lafond, Laird, Lang, Macnaughton, Manning, McIlraith, Molson, Sullivan and Walker. (14)

Present, not of the Committee: The Honourable Senators Davey and Smith (Queens-Shelburne). (2)

The Honourable Alan A. Macnaughton, P.C., Acting Chairman, in the Chair.

Following discussion, it was *Agreed* that the Committee disassociate itself from the statement which appeared in the *Toronto Globe and Mail* of this date, with respect to the information received from The Honourable Allan J. MacEachen, Secretary of State for External Affairs, regarding the position of the United States Government with respect to Bill C-58.

WITNESSES:

The Association of Canadian Advertisers:

Mr. T. Blakely, President;
Mr. David Hopkins, Vice-Chairman and Treasurer;
Mr. Walter Trudeau, Vice-Chairman;
Mr. Wayne McCracken, Legal Counsel; and
Mr. Rolf James, Project Manager.

Following the opening statements the witnesses were examined by the Committee in its continuing study of the said Bill.

At 10:20 a.m. the Committee proceeded to the next order of business.

ATTEST:

Frank A. Jackson,

Clerk of the Committee.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, June 9, 1976

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-58, to amend the Income Tax Act, met this day at 9.30 a.m. to give consideration to the bill.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, today we will be considering the broadcasting provisions of Bill C-58. First on the list, sitting immediately on my right, is Mr. Leslie Arries, who is President of WBEN, Inc. Next to him is Mr. Earl Beall, who is Vice-President and General Manager of WGR-TV. Immediately beyond him is Mr. Philip Beuth, who is Vice-President and General Manager of WKBW-TV.

Do you have an opening statement you want to make, Mr. Arries?

Mr. Leslie G. Arries, Jr., President, WBEN, Inc.: Yes, I do, Mr. Chairman; thank you.

Honourable senators, I am President of WBEN, Inc., a licensee of station WBEN-TV, Channel 4, Buffalo. Since your chairman has introduced the two gentlemen with me, I will not continue with the other introductions.

We thank you for the opportunity to offer our views concerning the amendment to Canada's Income Tax Act proposed by Bill C-58. We have submitted to your committee a written brief on this subject, and this morning I would like to stress only the most basic issues as we see them.

Our position starts and ends with a very simple observation: the revenues that United States television stations receive from Canada are not taken from Canada by any kind of force or fraud. Those revenues are payments for services rendered, the only compensation received for services that our stations provide to Canada.

For many years Canadian viewers have found our programs attractive. Canadian advertisers, who generally buy time first on Canadian stations, have found it useful to purchase time from us to supplement and round out their access to the Canadian marketplace. Canadian cable television systems have found it profitable to offer our signals to their subscribers. It is generally agreed that access to United States signals is the principal attraction offered by the cable industry of Canada, which had gross revenues of over \$132 million and before tax profits of \$30 million in 1974.

If we were dealing in an ordinary item of international trade, we would think it obvious that Canada has not suffered by the exchange. We understand, however, Canada's desire for a strong Canadian television industry. We understand the concerns of the CRTC and others with the competitive effects of our service upon your industry. If Canada chose to order our stations off its cable systems, or

to license Canadian channels that would interfere with the reception of our signals on this side of the border, we would be hurt financially. We might doubt that Canada was serving its own interests, but we could have no objection in principle. A company that does not want our service has no obligation to take it.

What we have never understood—really never understood—are proposals to strengthen the Canadian broadcasting system by retaining our product and our services in Canada for the benefit of Canadian viewers of cable operators while destroying our opportunities to earn fair compensation in the open, competitive marketplace. We respectfully suggest to you that Bill C-58 is designed to achieve just that result. The immediate effect of the bill, if passed, would be to double the cost to a Canadian advertiser purchasing time on our station.

You have heard considerable testimony on the subject of how advertisers will react to such a development. One thing, however, is clear. The purpose of the bill's sponsors is not to raise revenues for Canada's treasury. The bill's stated aim is to induce advertisers to shift time purchases from U.S. to Canadian stations. To the extent that advertisers continue to purchase time from us and pay increased taxes, the purpose of the bill will be defeated.

Considered in this light, the bill is not so much a tax measure as it is a tariff. If we understand correctly the recent testimony of Madame Sauvé, the Minister of Communications, she objects to alternative courses that might repatriate to Canada less than 100 per cent of the revenues we now earn. We can only take that to mean that her objective is to eliminate entirely any compensation for our services. However, she does not suggest that Canadian viewers and cable systems should do without the benefits that our program services provide.

In this respect, the effect of the bill on us is strikingly different from its effect on print media. If this bill is implemented in the print field, a magazine such as *Time* will have the choice of continuing under the new conditions or ceasing to distribute, in Canada, as its judgment dictates.

On the other hand, we cannot withdraw our services from Canadian viewers and cable systems unless we devote some considerable expense and effort to the project. Our proposal to do just that, however—if we are prevented from earning any compensation—has met with resistance from spokesmen for the Canadian government. Moreover, we find it impossible to consider Bill C-58 without regard to the CRTC's policy of ordering the deletion of our commercials from Canadian cable television systems. Both steps are aimed at the same problem, the competitive effects of our service on Canadian broadcasters. While the two steps differ in various ways, both are apparently designed to achieve the same results, the retention of our service without compensation to us.

There are three claims advanced by supporters of this bill which I would like to treat briefly.

First, there have been repeated charges that the Buffalo stations are engaged in the dumping of advertising time in Canada. I hope you will forgive me if I say that we find this allegation rather tiresome. We denied this claim in testimony before the Broadcasting Committee of your House of commons, refuted the only specific charges that were made, and offered our full co-operation in an investigation of the facts. That offer was not acted upon. The charge was repeated before the CRTC in general terms. We again offered full co-operation in examination of the facts, an offer that again was not accepted. Mr. Slaight, of the Global network, has made the charge again before you. We fully expect Mr. Znamer, of CITY-TV, who is scheduled to appear later today, to do the same. At this point we can only say that we sell our time to U.S. and Canadian advertisers at the same basic rates, and at costs per unit of audience which, to our knowledge, are higher than both Global and CITY. If you wish to pursue the matter, we remain entirely willing to co-operate in any reasonable investigation. We earnestly ask you, however, not to accept unspecific, unsubstantiated claims on this subject but to demand detailed allegations and, in fairness, to give us an opportunity to respond.

Secondly, it has often been said that we do not pay for the right to broadcast programs in Canada, that we do not own what we sell to Canadian advertisers. That claim, again, is entirely mistaken. The program suppliers, with whom we deal, are fully aware of our Canadian audiences and revenues. It is absurd to suggest that they do not take into account those audiences and revenues in their arrangements with us.

Taft Broadcasting, which is represented here by Mr. Beall, sitting next to me, owns stations in Kansas City and Cincinnati; United States markets slightly larger in size than Buffalo, if only U.S. audiences are considered. Nonetheless, WGR-TV consistently pays more for the same programs. For example, within the last year, WGR-TV paid 50 per cent more for the Dinah Shore Show, 81 per cent more for Mission Impossible and 98 per cent more for Warner Bros. feature film packages than Taft stations in the other two markets—markets, I repeat, that are bigger than Buffalo.

Thirdly, it is frequently said that we have no right to sell advertising in Canada because we are not licensed to serve your country. Of course we are licensed to operate with transmitters and antennas that deliver a signal to Canadian viewers, in full conformity with agreement made in 1952 between our two countries for the allocation of television channels. The carriage of our signals by Canadian cable systems, moreover, has been specifically licensed by the CRTC, not once but hundreds of times, and new licences continue to be issued.

Whatever the legal technicality, the basic fact remains that Canada was not forced to take our service. If Canada does not want us to compete in its advertising markets, then Canada has the option of rejecting our program service to Canadian viewers.

This issue has raised concern in the United States, not simply because our interests are threatened, but because Bill C-58 and commercial deletion are seen as unfair and discriminatory. Many in the United States have urged that our government undertake various retaliatory moves. For example, 15 U.S. Congressman recently suggested that action be taken against Canadian trade with the U.S.,

under the U.S. Trade Act, on the grounds that Bill C-58 and commercial deletion constitute discriminatory and unreasonable burdens on U.S. Commerce.

From the beginning, however, the border broadcasters have taken the view that this is the kind of problem that reasonable people should be able to resolve by negotiation. We have been encouraged by the Canadian government's willingness to discuss, at least, the commercial deletion matter with our government.

We understand that it is the position of our government that the implementation of Bill C-58, as to broadcasting, should also be discussed as a part of the overall problem.

In an attempt to advance a compromise position, we have made an initial proposal to the CRTC. We understand that this proposal will be discussed at a further meeting between the two governments, and we remain willing to consider alternatives.

The Chairman: Mr. Arries, if you do not mind an interruption, this might be an appropriate time for it.

I should tell the committee that I received a letter dated the blank day of June, 1976 from the Secretary of State for External Affairs on this very point. It is a short letter, and I believe it should be read into the record. While his letter is addressed to me, you will see as I read it that it is intended for the committee. It says:

Please find attached a "Summary of the United States Position with Regard to Bill C-58" which the U.S. Ambassador has asked to have transmitted to the Standing Senate Committee on Banking, Trade and Commerce.

As noted in the Summary, the question of the timing of the implementation of Bill C-58 was raised by United States officials at the January 13...

That is in 1976.

... meeting on commercial deletion. While the Canadian side undertook to bring the question to the attention of the Ministers concerned, there was no discussion of the matter since our officials naturally took the position that they had no mandate to discuss a bill that was before the Canadian Parliament.

That is signed by Mr. MacEachen.

Then there is a memorandum attached, entitled "Summary of the United States Position with Regard to Bill C-58," which reads as follows:

In the course of testimony before the Standing Senate Committee on Banking, Trade and Commerce Committee on May 6th, the Honourable Jeanne Sauvé, Minister of Communications noted that

"The United States Government has never objected to the policy expressed in clause 3 of this Bill (Bill C-58)."

As Mme. Sauvé stated, the United States has not questioned the right of Canada to pass Bill C-58.

Senator Davey: That is terrific.

The Chairman: I beg your pardon.

Senator Davey: That is good.

The Chairman: The memorandum continues:

However, in the course of consultations on the question of deletion from Canadian cable television trans-

missions of commercial messages originating from United States broadcasting sources, the United States representatives proposed that the implementation of Bill C-58 be delayed while the two governments seek to determine whether the objectives which the Bill seeks to promote can be achieved through some more positive arrangement.

This proposal remains the position of the United States Government.

That will be incorporated in today's proceedings. I am sorry I interrupted you, but I thought that that was a pertinent place to present it.

Mr. Arries: Thank you, Mr. Chairman.

The Chairman: Would you continue, please?

Mr. Arries: No one's interest can be served by an escalation of conflict or an effort to isolate the broadcasting media of one's country from the stimulus and challenge posed by the other country's media. In a speech delivered only a few days ago, Madame Sauvé called for the development of a Canadian program production industry that can export programs to world markets and particularly to the United States. Surely, it is along that path that Canada's program production industry, which has abundant creative talent, will find the revenues to compete with U.S. producers on more even terms.

We ask you to consider, however, whether Canada can advocate free trade and hope to be a successful exporter to our nation while unilaterally taking the kind of action embodied in the broadcasting provisions of Bill C-58. Countries which value their relationships normally prefer negotiation to conflict as a means of settling mutual problems. We see no reason why this should not apply to the present issue. We are confident that a solution to these problems can be found, and we continue to stand ready to co-operate to that end.

Mr. Chairman, honourable senators, I will share your questions with my fellow managers and, incidentally, competitors.

Senator Laird: Mr. Chairman, somebody may have tipped off Mr. Arries about our thinking. In other words, we take the point of view, some of us, at least, that confrontation is not the means of settling this problem. Do I take it that, beyond any question, so far as you are concerned you feel that it can be settled by compromise in the process of negotiation.

Mr. Arries: Absolutely.

Senator Laird: And you are prepared to go to any reasonable length in that respect, and all you are requesting really is time to do that?

Mr. Arries: Yes, that is correct.

Senator Walker: Mr. Chairman, I should like to ask a question of the President of WBEN.

The Chairman: Yes, Senator Walker.

Senator Walker: Mr. Arries, have you ever had a chance at any time, before or during the time that this bill was being framed, to outline your position to our minister, Madame Sauvé, or to anyone else?

Mr. Arries: Senator Walker, I have been working on behalf of my company for almost three years to discuss

this problem, the total border broadcast problem, with the Canadian government or agencies of the Canadian government. It was not until we made an appearance before the House of Commons Committee a short time ago that we had a chance to bring our case to anybody officially in Canada.

Senator Walker: Then I take it that you did not have a chance to appear at any time until after Bill C-58 was being considered by the House of Commons committee, is that correct?

Mr. Arries: That is correct.

Senator Walker: Well, had you before that made an effort to see Madame Sauvé, or any other Canadian official, in order to put forward your point of view?

Mr. Arries: We had made representations to members of their staff that we would like to sit down and talk with them.

Senator Walker: Had you done that constantly for a period of three years?

Mr. Arries: Yes.

Senator Walker: But without any success?

Mr. Arries: Yes, There have been changes of people in your government, so it was not always Madame Sauvé.

Senator Walker: That is not your fault. But you were never received and your point of view was never discussed across the table between you and any government officials, is that correct?

Mr. Arries: That is correct.

Senator Walker: So the first thing you knew about Bill C-58 was when you saw a copy of the proposed bill?

Mr. Arries: Well, we had heard about it before we got a copy, so we did know that such a bill was in the making.

Senator Walker: Then when you went to the House of Commons it had had second reading. Did you at that time have the opportunity of making your views fully heard?

Mr. Arries: Yes, we did.

Senator Walker: Was anything done at that time?

Mr. Arries: Well, I think that the committee recommended to ahead with the bill in spite of what we tried to say.

Senator Walker: So this occasion today is only the second time you have had an opportunity to sit across the table with anyone on this?

Mr. Arries: No, we had one meeting with representative of the CRTC concerning a proposal that we made that might effect a compromise, the mind of thing we were prepared to follow through on.

Senator Walker: I have just one more question. You might not want to discuss this with us, but have you in your mind now a compromise that you could outline to the chairman and to his committee?

Mr. Arries: We have a compromise in mind. In our discussions with the CRTC they asked us not to discuss it until they had had a chance to review it and have it become a part of the next meeting between our two governments.

Senator Walker: We will not ask you to do that. At least, I will not ask you.

The Chairman: Mr. Arries, when was the proposal submitted?

Mr. Arries: On March 18.

The Chairman: And to whom was it submitted?

Mr. Arries: To Chairman Boyle of the CRTC and members of his staff. There was at least one other member of the CRTC in the room as well.

The Chairman: Was there something that occurred at the previous meeting on January 13, 1976 that led to the preparation of this proposal?

Mr. Arries: It is my understanding that the meeting between the two governments drew a request from the Canadian government that the Americans offer some alternative to Bill C-58 in commercial deletion. That was what we addressed ourselves to.

The Chairman: You said the January 13, 1976 meeting was a meeting between governments. Who was there representing the governments?

Mr. Arries: As I understand it, the chairman of our Federal Communications Commission, Richard Wiley, was there, and a deputy of the State Department, Deputy Vine. And then there were staff members of CRTC and the Department of Communications from Canada. Those were the principals who were there. There were other people there, too.

The Chairman: Was somebody there from the Canadian Department of External Affairs?

Mr. Arries: Yes.

The Chairman: Was it the minister himself or was it some other departmental officer?

Mr. Arries: It was nobody of that stature.

Senator Manning: Mr. Arries, was your meeting with the CRTC after your appearance before the House of Commons committee?

Mr. Arries: Yes, it was.

Senator Molson: Mr. Chairman, the situation with regard to these border stations is certainly very complicated and difficult. I would like to ask you Mr. Arries, if there are any Canadian stations which have any substantial signal coverage in the border areas in the United States where you operate.

Mr. Arries: Across from Detroit, Windsor's CKLW has a substantial audience in the United States. I think, with the advent of the CN Tower, that the stations on that tower, channels 5 and 9 in Toronto, will develop an increased audience in the United States. They have some audience now, but as a result of being on the tower their signal quality has improved materially in our area.

Senator Molson: Is it comparable, at all, in signal quality?

Mr. Arries: To our signal in Toronto? I believe it is, yes.

The Chairman: I understand that the height of the tower is such that they will be able to beam diagonally

over the escarpment and that Buffalo and the border stations will be clearly viewable. Is that right?

Mr. Arries: Yes.

Senator Molson: Are there any Canadian advertisers on Canadian stations which are aiming their advertising at the American consumer in these areas?

Mr. Arries: Yes. We have Canadian coin advertising for the Olympics, we have certain travel advertising, and we have advertising for the CNE at that time of year. They all advertise with us to our United States audiences.

Senator Molson: Are there any large, international corporations which exist in Canada and the United States which use the Canadian stations for this purpose?

Mr. Earl Beall, Vice-President and General Manager, WGR-TV: Very little senator. The majority of the advertising on the Canadian stations would be directed to the Canadian audience. Very little, if any, would be directed to the U.S. audience.

Mr. Philip Beuth, Vice-President and General Manager, WKBW-TV: At this point in time.

Senator Laird: Except in Windsor.

Mr. Beall: I was referring to the Toronto-Buffalo area, but in the Windsor area stations do a sizable amount of business directed to the United States audience.

Senator Molson: Yet, in fact, there is a signal quality, I gather, in the Windsor area in some instances that could be quite a useful medium for advertising to a certain amount of the north-of-the-border audience.

Mr. Beall: It is potentially there, but it is unlikely that Canadian advertisers would buy the Toronto stations to reach a U.S. audience in Buffalo, which is not true for all across the border; but in the Buffalo area the Canadian advertisers who buy the major Toronto stations will be primarily interested in a Canadian audience.

Senator Molson: Why would that be?

Mr. Beall: Because at this point the audience they have on the U.S. side is not significant in relationship to the huge audience they have on the Canadian side. It could develop with the advent of the CN Tower, but it is unlikely.

Senator Lang: Am I correct in assuming that what you are saying is that an American would not advertise on a Canadian television station to reach an American audience, say, in Buffalo?

Mr. Beall: I am saying that it is unlikely, senator, because the size of the U.S. audience is very small in relationship to the size of the Canadian audience on the major Toronto stations.

Mr. Arries: I think there is a qualification to be added to that, senator. We do not really know the total impact, yet, of the CN Tower. They only went into operation on the Memorial Day weekend.

Another aspect of it is that our cable industry has not developed yet. We are only about 10 per cent wired in our city. If we were as fully wired in Buffalo and its environs as the Toronto people are, there could be a substantial U.S. audience.

I think the first supposition is correct, that the size of the Canadian audience will always be so large that no matter what size audience is developed on the U.S. side for a Canadian station the advertiser will principally want to reach the Canadian audience of your Canadian stations.

Senator Lang: There is an article in the *Toronto Star* of May 29 on this question of the CN Tower and its potential. If I may, Mr. Chairman, I would just like to read the first two paragraphs of this article and see what reaction the witnesses may have to it. This is by Jack Miller, a *Star* staff writer. It says:

The CN tower will be a spectacular success for Toronto television stations, dwarfing even some of the broadcasters' dreams of expanded coverage, judging by tests The Star conducted this week.

CFTO and CBLT will put stronger signals into Buffalo than the Buffalo stations deliver here, letting viewers in the U.S. city tune in to Channels 5 and 9 with simple "rabbit ears" antenna. And little CITY-TV will transmit perfect pictures to many centres which haven't been able to get as much as a flicker from the station. Some of these centres are more than 50 miles from Toronto.

And our readings this week were conservative—even ultra-conservative.

My assumption, if there is any truth in those statements, is that the transmissions that are now going forward from the CN Tower could have a profound effect on the interaction of Toronto television and radio activities in relationship to those south of the border. Would any of the witnesses care to react to that?

Mr. Arries: We look on the Canadian stations as competitive in an open marketplace now, and we certainly feel that this tower is going to add to that.

Senator Davey: Do any of the Canadian stations solicit advertising in Buffalo?

Mr. Arries: Not at the present time.

Senator Davey: Do you think any of them would be likely to do so?

Mr. Arries: I believe John Bassett has gone on record publicly to the effect that he would.

Mr. Beuth: It has only been on for a short time. There are no surveys to indicate yet the extent of the U.S. audience or its increase.

Senator Laird: And you can only sell on the basis of ratings...

Mr. Arries: Circulation.

Senator Laird:—and obviously at this time there are no ratings.

Mr. Beuth: That is correct.

Senator Davey: Would you be pleased if John Bassett solicited advertising in Buffalo?

Mr. Arries: That is the way I have grown up, in the free enterprise system. I never like an additional competitor, but I am used to that.

Senator Lang: You are not going to ask for legislation to prevent it, are you?

Mr. Arries: No.

Senator Walker: But you could, if you wanted to.

Senator Davey: They would get it if they asked for it, too.

Senator Walker: Would you repeat that as a question, Senator Davey?

Senator Davey: I am making the comment. I said that if they asked for that kind of legislative protection from the U.S. government, they would get it.

Senator Walker: Is that true?

Mr. Arries: I do not think that is the history of our country. I can only speak for myself, and my confreres can certainly speak for themselves, but I would not support or ask for such legislation.

Senator Walker: We have not seen any sign of it around here, I can assure you of that.

Senator Lang: Mr. Arries was referring to a 1952 agreement, which I presume was a treaty between Canada and the U.S., and to licences issued under that agreement. I am not familiar with these facts, and I do not know whether other members of the committee are. If that area could be amplified, for my edification and, I hope, for the of other members of the committee, I would appreciate it.

The Chairman: I think that was under the Broadcasting Act.

Mr. Arries: Mr. Chairman, that is correct.

Mr. Beuth: Mr. Chairman, there is a Canadian-U.S. agreement of 1952, which governs the allocations of commercial channels so that they do not interfere with each other, and that agreement has been in existence between our two countries since that date.

Senator Laird: That covers radio too, does it not?

Mr. Beuth: No. I think this is specifically television.

Senator Laird: Radio was taken care of before that.

Mr. Arries: Yes.

Mr. Beall: That is true.

Senator Lang: That implicitly, I assume, recognizes that the Buffalo stations are going to be transmitting into Canada.

Mr. Arries: And vice versa, senator.

Senator Austin: Mr. Chairman, I am not sure whether my question should be directed to the witness or to you, in the light of the document that you read into the record this morning. Do you have any information as to the Canadian government's response to the U.S. position?

The Chairman: This is all the information I have. There is no reason why they should indicate their response to me.

Senator Austin: I presume we have had the response of the government, then, though the evidence of the ministers here.

The Chairman: Well, I asked some questions of Madame Sauvé, and I also asked some questions of the minister, Mr.

Faulkner, because I knew about the meeting of January, 1976 and I knew about the proposals made in March, 1976.

Senator Austin: The evidence of the two ministers, Madame Sauvé and Mr. Faulkner, is that they intend, so far as government policy is concerned, to continue with this legislation.

The Chairman: I think the evidence of both was quite simply that the subject matter was deletion, and these letters apparently are to dissipate that idea.

Senator Austin: You don't feel then, Mr. Chairman, that the Canadian government has directly met the request from the United States government?

The Chairman: Well, what Mr. Arries said was and the matter was adjourned for the CRTC to consider it.

Senator Austin: What, in your opinion, Mr. Arries, would be the substance of such negotiations? What would the United States government propose or what would you, the absence of your knowledge on that question, like to see a negotiated bargain between the two countries?

The Chairman: I do not think the witness should discuss the proposal. However, if you want to put a hypothetical case, that is another matter.

Senator Austin: No, I have asked him, from the extent of his information or knowledge, what he can tell us.

Mr. Arries: It would be difficult to get into a hypothetical case without drawing direct reference to our proposal. That is before the CRTC, and I am sure you could ask them to comment directly.

Senator Austin: It is difficult for me, as a member of this committee, to understand the substance and value of your observations without having any detail at all. What you have said to us is that you think there is a viable basis for negotiations, but you cannot tell us what it is.

Senator Cook: I think that is a very reasonable question. Why can we not know what is before the CRTC?

Senator McIlraith: Mr. Chairman, was there not an answer given that there was a request that the CRTC not disclose the proposal?

Senator Walker: I stopped my questioning when the president told me he was not at liberty to disclose this.

Mr. Arries: I think it prejudices future discussions between our two countries on this subject if we get into an open discussion in this forum concerning any proposal.

Senator Cook: But we are part of the government of Canada. I agree with Senator Austin. I am not very much in favour of this clause, but I would like to know what the alternatives are. It seems to me to be a reasonable line of inquiry.

Mr. Beuth: We would seek the alternatives, senator, and we would hope to find a basis to discuss the whole area of concern, the deletion issue and the tax issue, and any other associated issues. It is safe to say that our proposal would be someplace between Madame Sauvé's 100 per cent repatriation and whatever kind of compromise we could make. If it is true that Madame Sauvé will insist upon 100 per cent repatriation, then there is no negotiating point. But if that is not the case, then there certainly is an area someplace in between.

Senator Cook: Well, I will not press the issue, but my point is this; if there is an alternative, there is no point in telling me that there is an alternative unless I know what the alternative is. I know nothing about broadcasting and I do not know what the alternative is, so it seems to me that this is not a very helpful line of inquiry.

Senator Austin: I agree with Senator Cook on that point. I should also like to say that I asked Madame Sauvé to tell us what her conditions precedent were to the proclamation of section 3, and specifically I asked if there was any possibility of negotiation as a condition precedent, and she said no. So it is clear that she, at least, is not envisaging the possibility of a negotiated settlement.

The Chairman: I shall ask a question that may clarify the situation somewhat. If CRTC were prepared to have you disclose your proposals, would you be prepared to disclose them?

Mr. Arries: Yes.

Senator Davey: Are these proposals on cable deletion?

Mr. Arries: It is a total proposal relating to cable deletion and the tax bill.

Senator Walker: You will appreciate that we are in a difficult position here if your hands are tied. What can you do here this morning unless you can tell us what you are expecting or what you want?

Mr. Beall: What we are asking for, senator, is some form of negotiations to address ourselves to the proposals, and the role of the three Buffalo stations has not been the total role of these negotiations. The State Department is involved and other branches of government and other stations, so we will not be the only ones to negotiate this compromise, we hope.

Senator Austin: Mr. Chairman, may I address another question, as a "new boy"? I am not familiar with requests for positions directed to a Senate committee by the United States Government. Is this a practice that has come within the experience of the Senate before?

The Chairman: Did you mean to use those two words? I understand that now you have used them, they are entitled to be in our dictionary.

Senator Austin: I have no objection to using them for myself, and I have no objection to using them with a sense of humour, Mr. Chairman.

The Chairman: I hope your question was not intended to be humorous.

Senator Austin: I hope a little levity from time to time helps us to understand and digest the material. But I wonder whether you, Mr. Chairman, or other senators could advise me about the experience of the Senate in terms of the submission by the United States Government. Is this a practice we have come to know as a matter of long standing? My question leads to the possibility of the United States Government's coming here to elucidate their position as well as perhaps a minister or the CRTC, with respect to this question.

The Chairman: All we know so far is that there was a meeting in January, 1976 at which were present some person from the United States State Department and some official from the Federal Communications Commission, and from Canada there was the CRTC and a government

official, I would assume from External Affairs. That is all we know officially so far, according to the evidence before us.

Senator Austin: But my question to you, Mr. Chairman, is this: Have we had previous experience with respect to the United States ambassador directing a position to a Senate committee?

The Chairman: Well, if you have a copy of the letter—and I understand there was a direction to Mr. MacEachen to deliver a copy to this committee...

Senator Austin: But have we had previous experience of that taking place, in your term as chairman? Have you seen that take place before?

The Chairman: I cannot answer that question.

Senator Austin: I wonder whether the ambassador is offering himself as a witness.

The Chairman: Maybe Senator McIlraith can tell you that.

Senator McIlraith: I was merely about to ask you a further question: With reference to the Americans using this process, how many times have we used it in Washington in the last 10 years? We should ask that of the chairman, if he is obtaining the information from the Secretary of State for External Affairs, or if the committee will receive the information from the Secretary of State for External Affairs.

The Chairman: Well, I will try.

Senator Davey: Is it your intention to ask the ambassador to appear before this committee, Mr. Chairman?

The Chairman: I do not believe we could do that.

Senator Davey: Does this document relate to the magazine part of the bill also, or is he referring only to broadcasting?

Senator McIlraith: It is only with respect to broadcasting.

Senator Cook: It makes reference to clause 3.

The Chairman: I would not recommend inviting the U.S. ambassador; he is in a privileged position.

Senator Davey: But I want to know if he is trying to bale out *Time*. Is that the object of this? What is the purpose of it?

Senator Flynn: The Hon. Mr. MacEachen is the one.

Senator Davey: He did not write this.

Senator Flynn: No, but he decided that it should come to us and he will appear and explain it.

Senator Davey: That might also be a good thing.

Senator Flynn: Yes, because the intervention is not by the ambassador, but by the Hon. Mr. MacEachen.

Senator Austin: At the request of the ambassador.

Senator Flynn: He did not have to say yes, however.

Senator McIlraith: The document tabled indicates that he is referring to the broadcasting part. It requests that it be delayed while the two governments seek to determine

whether the objectives which the bill seeks to promote can be achieved". That follows the reference to "deletion from Canadian cable television transmissions of commercial messages originating from United States broadcasting sources". So it clearly relates only to broadcasting.

Senator Cook: It also refers to clause 3 of the bill.

Senator Macnaughton: Mr. Chairman, insofar as this witness is concerned, I understand the conclusion of your presentation is set forth at page 14 of your brief, being the last paragraph.

Mr. Arries: Yes, that is correct senator; that is our conclusion.

Senator Macnaughton: On the suggestion of Senator McIlraith, I would like to read it into the record:

We, therefore, ask that you not adopt Bill C-58 in its present form, but that instead you encourage an exploration of the factual situation in greater detail. We also ask that you recommend deferral of any final consideration long enough to permit negotiations between our two countries on the broader television question to go forward.

That is your position?

Mr. Arries: Yes.

Mr. Beall: Yes.

Senator McIlraith: The wording is broader.

Mr. Arries: It is broader.

Senator Molson: I am concerned with respect to the changing situation in the border areas in television. It seems to me that we reach the broadcasts from the tower and the impact of the Canadian stations on part of your market. Is it perhaps not changing sufficiently that this is a poor time for us to be discussing the problems which we have before us at the moment? In other words, the situation that has applied historically in television, for example, on the border stations, is actually changing now, perhaps more than it might have done during the last 15 or 20 years. Is that not so?

Mr. Arries: That would be so, senator, yes.

Senator Molson: I am thinking in terms of the advertisers using your stations, Mr. Arries, and for certain purposes, and the possible application of the advertising to the Canadian stations when they become competitive. Will we not be in a state during the next year or two in which conditions will be changing in this market?

Mr. Arries: I do not believe there is any question that we are in a state of change. In my opinion, however, discussions can also be helpful, particularly in view of the fact that none have taken place in the past. Therefore, I would hate to see a condition of change hold off discussions as between the two countries because it is a long term problem, certainly as far as the Canadian viewpoint is concerned, and I believe that discussion would be healthy. I believe you to be absolutely correct in saying that it would be difficult to draw conclusions right at the moment, because of the change that is taking place.

Senator Davey: I wonder if I could ask each of the witnesses what media holdings they have beyond this Buffalo station, or in which their companies are involved?

Mr. Arries: I will start, Senator Davey: WBEN, Inc. is a wholly owned subsidiary of the *Buffalo Evening News*; that is the total extent of our corporate entity.

Senator Davey: And do you operate a radio station also?

Mr. Arries: AM/FM and TV broadcast properties.

Senator Davey: So it is AM/FM, TV and the *Buffalo Evening News*?

Mr. Arries: Yes.

Mr. Beall: Taft Broadcasting Company is a publicly held corporation. We have six television stations, five VHF's and one UHF. We have five AM/FM radio operations. We have a production company and other subsidiaries, but in the broadcasting area we have six TV and five radio outlets.

Mr. Beuth: Capital Cities Communications Inc. has six television stations, seven AM radio stations, six FM radio stations, three daily newspapers and a number of business publications.

Senator Davey: Where is the head office of Taft?

Mr. Beall: Cincinnati, Ohio.

Senator Davey: Where is the head office of Capital?

Mr. Beuth: New York.

Senator Davey: I wonder if you could tell me the total amount of your advertising sales in Canada since your inception.

Mr. Beuth: When you say "since inception"?

Senator Davey: Since your inception in Canada.

Mr. Arries: I could not answer that in our case; we would have to refer to the records.

Senator Davey: Would you care to take a guess?

Mr. Arries: Well, I could guess, but I would have to figure out what time we went on the air and the growth of the advertising over the years. It would just be a guess.

Senator Davey: Well, that would be fine.

The Chairman: You may forward the information to the committee by way of memo if you prefer.

Senator Macnaughton: Why don't you take the current year?

Mr. Beall: The combined gross revenue done by the Buffalo stations out of the Southern Ontario market is estimated to be approximately \$10 million. I can only speak for the figures of our stations and obviously do not know the figures for WBEN and WKBW. However, at the current time we are doing approximately \$10 million in gross business.

Senator Davey: That would be over how many years?

Mr. Beall: We have been on the air 21 years, and five years ago our approximate revenue was 50 per cent to 60 per cent of what it is today out of Canada.

Senator Davey: Well, I suppose that you agree that \$100 million would be a very conservative, indeed an extremely conservative estimate of what the Buffalo stations have taken out of Canada.

Mr. Beuth: Senator, I would respectfully disagree with that; I think it is considerably less than that. As I recall—these are figures I am trying to pull out of my head—in our case our billings in the early sixties were less than \$100,000 a year.

Senator Davey: I wonder, Mr. Chairman, as the witnesses cannot give us these figures today if they could supply them to us. I think it is extremely interesting to know how much money they take out of Canada.

Mr. Beall: Absolutely. We would be happy to give you those figures.

Senator Davey: In that time period during which you have taken this money out of Canada, which I think would be over \$100 million, how much money have you paid in taxes to Canada?

Mr. Beuth: As you know, senator, we have not paid any taxes in Canada...

Senator Davey: You have paid no money in taxes. This money has been tax free...

Mr. Beuth: However, we have...

Senator Davey: I would now like to ask you...

Senator McIlraith: Let him finish the answer.

Mr. Beuth: As you know, those figures are gross, and from those figures, of course, there are substantial sums which stay in Canada...

Senator Davey: Advertising fees, rep. fees...

Mr. Beuth: Yes, sir. Some 25 per cent of those stay in Canada.

Senator Davey: And some of those advertising fees go to American advertising agencies.

Mr. Beuth: No.

Senator Davey: Sure they do. Do American advertising agencies in Toronto place business in your station?

Mr. Beuth: No, sir, those are not included in that figure. These would be Canadian advertising agencies we are speaking of.

Senator Davey: Would you call Ogilvie Mather a Canadian advertising agency? What is your definition of a Canadian advertising agency?

Mr. Beuth: An advertising agency in Canada doing business in Canada. I do concede, sir, that some are subsidiaries of...

Senator Davey: Forty per cent of them are subsidiaries. However, I agree...

Mr. Beuth: Those businesses, I assume, are taxed in Canada.

Senator Davey: But the agency fees stay in Canada. You deduct the agency fees and the rep fees. I take that point. But you pay no money in taxes in Canada. How much of that money, of those many millions of dollars—I suggest more than \$100 million—has been reinvested by you in Canada?

Mr. Beuth: In terms of increasing our program and service, our attractiveness...

Senator Davey: I wasn't asking you that. I was asking you how much of that money has been re-invested in Canada.

Mr. Beuth: In a sense, much of it, sir, as we reinvest those moneys into programs which Canadian viewers like and appreciate.

Senator Davey: You invest in improving your station.

Mr. Beuth: Yes, sir . . .

Senator Davey: But you . . .

Senator McIlraith: Let him finish his answer.

Mr. Beuth: Providing increased program sources with that money to Canadian cable operators on which to build an industry; and, I think, most importantly, providing an alternative source of advertising—providing an advertisers' service that is appreciated and used by advertisers in Canada.

Senator Davey: I take that point; but you have not re-invested any of this money, this gravy, back in Canada. That is a fair statement, is it not?

Mr. Beuth: In another sense, yes.

Senator Davey: Of course you have improved your station. How much Canadian content do you carry on your station?

Mr. Beuth: Other than occasional news, we do not have Canadian content . . .

Senator Davey: As the Canadian broadcasters are compelled to carry. I would like to read a quotation from the Broadcasting Act. It says:

the Canadian broadcasting system should be effectively owned and controlled by Canadians so as to safeguard, enrich and strengthen the cultural, political, social and economic fabric of Canada.

I may say that the Broadcasting Act passed the House of Commons, and passed the Senate unanimously; so we are on record as endorsing, as one of the purposes of the Broadcasting Act: "to safeguard, enrich and strengthen the cultural, political, social and economic fabric of Canada."

I would like to ask each of you how your station enriches or strengthens the cultural, political, social and economic fabric of Canada.

Mr. Beuth: In answer to that, senator—and I include in my answer another reference to the Broadcasting Act, which says that the right of all persons to receive programs should not be denied. I think those two are at issue with each other, because on the one hand it says that the importation of U.S. signals on Canada is not restricted—and therein, I think, lies the problem with which we are faced: those two sections of the Broadcasting Act are at odds with each other. I do not see any of that language as reason to take our product and deny us an opportunity to be compensated for it.

Senator Davey: When Bill C-58 passes, will you be forced out of business?

Mr. Beuth: I speak only for myself and not for the other stations. No, I would not.

Senator Davey: Would either of the other stations be forced out of business?

Mr. Beall: No, we would not be forced out of business.

Mr. Arries: No.

Mr. Beall: However, we do not feel that Bill C-58 will serve its original purpose, which is to repatriate the advertising dollars to Canada. We feel that it is unfair and is denying us fair remuneration for our service.

Senator Davey: I think you have had pretty fair remuneration . . .

Senator Walker: My friend has been making a speech now for nearly 15 minutes. Why don't you go up and take the box and let us cross-examine you?

Senator Davey: I would be delighted to do that, Senator Walker, if that is your wish. If you have a question, go ahead.

Senator Flynn: Well, I have one.

Senator Walker: I have a lot of questions that concern you.

Senator Flynn: Tell me what is the essential difference between a program made in the area of Buffalo and one made in Toronto?

Senator Davey: Are you asking me that as a question?

Senator Flynn: Yes.

Senator Davey: I think one of the key differences is that Toronto stations employ a good number of Canadians . . .

Senator Flynn: I am asking you for your point of view.

Senator Macnaughton: We should swear in the witness!

Senator Davey: I wonder if the other station owners would care to comment on how they "safeguard, enrich and strengthen the cultural, political, social and economic fabric of Canada"?

Senator Walker: What is your answer to the question of Senator Flynn?

Senator Davey: Well, I think the witnesses are here, and I do not think we should use the time in a discussion back and forth. I wonder, Mr. Chairman, if the other witnesses have a comment on how they contribute to the "cultural, political, social and economic fabric of Canada".

Senator Flynn: I would like to ask that question also of some TV stations in Canada.

Senator Davey: Mr. Chairman, I asked a question. Would the witnesses care to comment?

Mr. Beall: Senator, we feel that we have provided information in the form of our programs, hopefully entertainment. We think that this in itself is our basic role. Regardless of the other facts, that we provide information and entertainment, we still do not think it fair to take our product and not have us get some form of remuneration for that product.

Mr. Arries: We also believe, senator, that we have actually contributed to the growth of a very successful Canadian cable industry, more successful than any other cable industry in the world. We have also contributed successfully to television growth in Canada in smaller markets. We have made it possible for advertisers to use the Toronto market

successfully and therefore be in television and use television Canadianwide.

Senator Davey: As you know . . .

Mr. Beuth: Senator, if I may also, please.

Senator Davey: Yes.

Mr. Beuth: It has been our position all along that while we provide a service to Canadian viewers and cable operators, it has also been stated by us from the very beginning that if you don't want our service, take us off, take steps to deny our service to Canada. So long as we are there, and so long as the viewer and advertiser want us there, we think we deserve compensation. But take us off, if that is your wish.

Senator Davey: I personally would not take you off the air. I believe in a free flow of information. I just do not think you should be able to sell advertising in Canada. You sell lots of advertising in the United States. I should like to turn to this question of advertising sales . . .

The Chairman: What question? I have been hearing short speeches and longer speeches, but I have not heard questions.

Senator Davey: I would like to ask a question with regard to page 2 of the brief, where you talk about dumping. You say that Moses Znaimer "has been making the dumping complaint. We are prepared to furnish proof of this to the Committee—" Why don't you furnish the proof? You made a big point today, and you made the same offer to the House of Commons committee. I would be interested in seeing the proof.

Mr. Beuth: We would be delighted to answer, but what is the case?

Senator Davey: You are saying that you are going to furnish proof to the committee. I am saying that I would like to see the proof.

Mr. Beuth: We said that has continually been the case, but it is unsubstantiated. We have to know the account he is talking about, the campaign, the time of the year, and who the agency was, and we will then answer that.

Senator Davey: You say you are prepared to furnish proof of this to the committee. Okay, I would like to see it.

Mr. Beall: Senator, we did that before the house. There were some allegations against us on the dumping charge, and we supplied to that particular committee the actual facts and the schedules that were placed on the station in Buffalo. We would be glad to do that again on any explicit accounts involved.

Senator Davey: Mr. Znaimer will be appearing before the committee later this morning. Perhaps I can ask him about it.

Do you charge a different rate in selling advertising in Toronto than in selling advertising to national advertisers in Buffalo? You said you had the same basic rates. What did you mean by that?

Mr. Beuth: If I may answer that, speaking for WKBW, on the basis of my knowledge of our own rates and those of our competition, we charge the same to advertisers on both sides of the border. We have one rate card applicable to all advertisers, and those rates, as we state in our brief, are

generally higher than Global and CITY on a unit basis, a cost-per-audience basis, which is the only way to judge rates, and are generally lower than the major Toronto stations. The reason they are generally lower is that we are a secondary buy. We are not a primary buy in Toronto. Canadians prefer to buy the Canadian reach of heavy audience stations long before they consider us.

Senator Davey: I certainly intend to pursue that with Mr. Znaimer. I appreciate it is a serious charge. If he cannot substantiate it, then you are quite correct in being offended.

What percentage of your advertising from Canada is local and what percentage is national, in round figures?

Mr. Arries: I do not think we understand your question, Senator Davey. We consider all advertising that comes from Canada as Canadian advertising. We do not break it down as between local Canadian or national Canadian advertisers.

Senator Davey: You do not have a local rate card in the United States?

Mr. Arries: No, we do not.

Senator Davey: So, a car dealer in Buffalo pays the same as a national company?

Mr. Arries: He would pay the same as a national company in the United States or a Canadian company.

Senator Davey: Do Canadian local advertisers buying your station, as many of them do, use advertising agencies, or must they use advertising agencies?

Mr. Arries: They do not have to, no.

Senator Davey: Do you have a salesman soliciting local business in Toronto?

Mr. Beall: Through our representatives, yes.

Senator Davey: A representative calling on local accounts, as opposed to national accounts going through advertising agencies?

Mr. Beuth: It is a fine distinction.

Senator Davey: In any event, I do not want to string this out. I thought perhaps the dumping aspect might have related to local advertising as opposed to national.

I have only two more questions, Mr. Chairman, the first of which relates to the amount of local production carried out by the Buffalo stations.

Mr. Arries: Seeking for WBEN-TV, we do approximately 25 to 30 hours per week, depending on the time of year.

Senator Davey: And how much of that local production is shown in prime time?

Mr. Arries: We have an hour-long local newscast from 6 p.m. to 7 p.m.; we do a bowling show from 7 p.m. to 8 p.m. I believe that is considered prime time, so that is an hour and a half a day, Monday through Friday. If 11 o'clock is considered prime time, we have a further half hour across the board.

Senator Davey: Would it be a fair observation to say that you do not do as much local production as do the Canadian stations?

Mr. Arries: There is a range of stations in Toronto, network stations, as we are. Some of those stations are responsible for network programming. I am sure it is possible that they do perhaps more local live programming than we do. Taking the case of channel 11, however, I believe all three stations represented here this morning do more local live programming than does channel 11.

Senator Davey: I do not think so. I would like to check it out.

Senator Walker: He asks for the answer, he gets it, and he doesn't agree.

Senator Davey: One final question, Mr. Chairman.

Mr. Arries: you are satisfied, I think, with the objectives of the Canadian Broadcasting policy as far as Canadians are concerned. You understand the objectives of the CRTC and why it espouses those objectives, and why the Parliament of Canada has agreed to them.

Mr. Arries: I think so.

Senator Davey: Your company owns WBEN-FM, a radio station. I would like to quote the general manager of that station, a Mr. Paul Butler, who, in commenting on the fact that WBEN-FM takes at least \$250,000 worth of advertising out of Canada, chiefly from Toronto, made the following statement:

... "and another factor why we're getting so many Canadian listeners,"— "is the 30 per cent Canadian content that the CRTC has laid down on Canadian radio stations. That is not affecting us the way it is CHUM."

Would you care to comment on that statement?

Mr. Arries: I think you have to understand the interplay between our two marketplaces. It started in television and it has now carried over into radio broadcasting.

About two years ago we re-formatted our FM station, purely to get a competitive position in our own marketplace. We discovered, happily, that it also attracted a substantial Canadian audience. We have a good signal and it does get into Canada, not unlike some of the Canadian stations that are listened to in our marketplace. We got calls from local Canadian advertisers asking to advertise on our station. We have no idea at this point in time what our circulation in Canada is because there have been no measurements made of that circulation. However, Canadian advertisers have used our station, with success, for the purpose of selling their products, as a result of which we have earned substantial Canadian revenues.

Senator Davey: Isn't WBEN-FM advertised in Canada? Do you not have billboards in Canada?

Mr. Arries: I believe we do have billboards, yes.

Senator Davey: So, it was not just entirely an accident.

Mr. Arries: The billboards did not come along until after Canadian advertisers began making requests to use our station for advertising purposes. Being good merchandisers, if we find a field to exploit and from which we can earn revenue, we are going to try to increase that.

Senator Davey: I think "exploit" is the right word, Mr. Arries. Thank you.

Senator Lang: Mr. Chairman, my question is supplementary to a question asked by Senator Davey. The witnesses

might note that prior to today's hearing the committee received conflicting evidence as to whether the Toronto stations are "sold out" or "not sold out," whatever those terms mean. One of the witnesses this morning referred to the fact that Canadian advertisers regarded buys on Buffalo stations as secondary. What has happened to their primary buys?

Mr. Beuth: If I may respond, Mr. Chairman, they satisfy most of their goals with the major audience stations in Toronto, being CBLT, and CFTO, and CHCH in Hamilton. Having done that, they then look to round out access to the marketplace, fulfill a marketing plan, at which point we come into the picture.

It has been true for some time that the demand by Canadian advertisers for the availabilities on Canadian stations has been of a higher level than the demand by those very same advertisers for our stations. Demand and supply is the name for our stations. Demand and supply is the name of the game in a limited availability, limited inventory business. Consequently, we found that the major audience stations, those stations with a viable audience to offer, in Toronto have a very high level of sell-out. What is left may not be exactly suitable to the demographics of an advertiser's campaign. They take those high audience positions, generally locking them in for long-term commitments, and then seek other availabilities, at which point we come into the picture. The demand for Canadian stations has far exceeded the demand for U.S. stations. That is why there is a slight differential in the unit rate between our stations and the major Canadian stations.

Senator Lang: Am I correct in assuming that the major Canadian stations are, in prime time, "sold out"?

Mr. Beuth: Generally sold out, yes. I am sure one could find announcements on their stations, but whether they fit the demographic desires of the count is another question.

Senator Lang: Would a Canadian advertiser prefer to go to a Buffalo station as a second choice rather than to another Canadian station in non-prime time?

Mr. Beuth: Yes, I think so.

Mr. Beall: Excuse me. The question was: Would they prefer to go to a secondary station in Buffalo?

Senator Lang: No—make their second choice another Canadian station in less desirable time.

Mr. Beall: The reason why I interrupted Mr. Beuth was that I think Canadian advertisers prefer to buy Canadian stations wherever possible.

Mr. Beuth: Wherever possible, but the practical matter is that the availabilities, as we see them, and the manner of selling a station like WOHL, where an advertiser might have to buy much more than he would need, are very complicated. The availabilities on the UHF stations are not yet at sufficient levels—we believe they will be—to satisfy an advertiser's needs. That is why we are, in a practical sense, second choice rather than the UHF. It is very similar to the United States.

Senator Lang: You say the UHF is in a state of flux; in other words, it is developing its markets?

Mr. Beuth: Yes, and it is developing in the United States. We find that the United States UHF competitors with us are growing substantially and selling those areas.

It is similar to what we have seen growing with Global. They now have viable areas in which to compete with us. They do not have as many because, frankly, they have not been around as long as we have and the audience has not yet turned to them to the extent that they turn to us.

Senator Lang: I presume this development would be to your detriment and to the benefit of the Canadian stations.

Mr. Beuth: Eventually, we believe so, yes.

Senator Molson: Could we get some idea of the proportion of advertising billings at as between United States and Canadian business on these stations?

Mr. Arries: I can speak only for WBEN specifically. I will give you a rough figure. It may vary a few percentage points either side. It would be about 30 per cent of our total billings are Canadian.

Mr. Beall: I would say that is a little high. I think the current figure is 26 per cent in our case.

Mr. Beuth: I would say similar, between 25 and 30 per cent.

Senator Cook: Following that same point, do I understand on this dumping business that it is the same unit of time and the same charge whether it is a Canadian advertiser, an American advertiser or a national advertiser?

Mr. Beuth: Yes.

Senator Cook: The same unit of time?

Mr. Arries: You are absolutely correct.

Senator Cook: There are no kickbacks, no discounts? Is that a matter of policy or a matter of law?

Mr. Beall: That is a matter of policy, not a matter of law.

Senator Cook: It is quite clear that there is no difference between Canadian, American, national or local?

Mr. Beall: That is correct.

The Chairman: There may be currency differences.

Mr. Arries: You are right.

Senator Cook: That is in our favour at the moment.

Senator Davey: On the proposal about which we talked earlier that you people made to the CRTC, I have just two questions. First, was it a proposal relating only to cable relations, or did it relate to cable relations and Bill C-58?

Mr. Beall: Both.

Senator Davey: Secondly, who asked that it remain confidential? Did CRTC ask you to keep it confidential?

Mr. Beuth: Since these were more or less informal meetings, it was understood that if it was to be released they would release it. Our counsel tells us it was a mutual discussion. We do not know exactly who made the specific request, but I do know we came out of that saying that if it was to be released we thought it proper that the CRTC do the releasing. They have chosen, other than a leak or two in a newspaper here and there, to have it remain confidential.

Senator Macnaughton: It is still an on-going conversation?

Mr. Beuth: We hope so.

Senator Macnaughton: That is what we were told.

Mr. Beuth: We hope so, although we are still waiting for further negotiations to take place.

Senator Macnaughton: They are slow discussions.

Senator Cook: It is not very on-going if Bill C-58 goes through.

Senator Davey: You are waiting for the CRTC to come to you?

Mr. Arries: It has to be done through governments, as we understand it.

Mr. Beuth: It is not just Buffalo. When we say "we", we are talking about the total border situation.

Senator Austin: I would like to ask the witnesses a question about their attitude towards competition from Canadian stations that have pre-release rights on television programs. I understand that some of the stations represented here have felt that that was unfair competition and have gone to the FCC with a petition to that effect.

Mr. Beall: The Buffalo stations have grown up with pre-release. It was a way of life, but when commercial deletion came in and the proposed Bill C-58, we expressed ourselves regarding pre-release. Prior to that it was another form of competition; it worked to our disadvantage, but we were prepared to live with it.

Senator Austin: Why is it not competition now when it was competition before?

Mr. Beall: It is competition now. The fact is that there are two new developments—namely, deletion of our commercials and pending taxation.

Mr. Beuth: Which would, in essence, put us out of business.

Senator Austin: Why would it put you out of business?

Mr. Beuth: We feel the combination would.

Senator Austin: Put you out of business?

Mr. Beuth: In Canada. The combination. That is why we think the negotiations should go forth on the total basis.

Mr. Beall: The answer is that we would not have been concerned about pre-release had it not been for Bill C-58 and commercial deletion, because we have lived with that for years.

Senator Austin: The competition is enhanced by Canadian government policy changes?

Mr. Beall: Yes.

Senator Austin: You know the petition I have referred to?

Mr. Beall: Yes.

Senator Austin: What you are doing in that petition is seeking to prevent United States production and sales groups from making sales of that type to Canadian stations. Would that be a fair summary of the effect of your position?

Mr. Beuth: What we really wanted to do was have an examination of the total issue. We are not alone in that position. There are border stations from coast to coast involved in that. The cable ramifications are considerable. It is a very complicated issue.

Senator Austin: KVOS did not join in this particular petition?

Mr. Beuth: I don't know.

Mr. Arries: The prime mover of that request is the American broadcasting television network.

Senator Austin: The relevance of the question relates to your own evidence earlier this morning, that you would not seek to go to government for interference in competition between Canadian and United States stations.

The other information I would like to make available to the committee, Mr. Chairman, relates to the area of profitability of these particular stations. Questions were asked about that. I refer to the inquiry before the Federal Communications Commission and the reasons given on October 22, 1975. The report indicates that the Buffalo market is one of the most profitable in the United States. On page 513 of the report issued by the Practising Law Institute under the title, "Legal and Business Problems of Television and Radio 1976," it says:

I merely assert that the broadcasters . . .

These being Buffalo broadcasters.

. . . seeking relief are not needy. It is in this regard particularly ironic that so much of the concern has been focused on threatened injury to profits in the Buffalo market, given the fact that this is among the most consistently profitable markets in the country. With a market rank 28, the Buffalo stations earned nearly \$9.5 million in 1974—more than the aggregate income of many far larger markets.

Their incomes as a percentage of revenue is quoted as 33 per cent.

Mr. Beuth: We provide a service and we are a profitable market, there is no question about that. However, we would ask this body to judge whether that is a reason to take our product and not pay us for it.

Senator Austin: I grant you that you are entitled to a profit and I would defend that right, in terms of a normal competitive service. I did want to make it absolutely clear that a profit or a financial condition is not a part of your argument. It is a question of really other things.

Mr. Beall: Basically, that is the issue.

The Chairman: I guess it is a question of doing business or not doing business.

Senator Austin: It is a question of whether Canada benefits from their doing business in Canada or does not benefit as much as it could.

The Chairman: Remember what Madame Sauvé said. She said there was \$20 million, I believe it was, in advertising that was presently being paid to U.S. border stations, and what this bill proposed to do was to take that \$20 million and put it into Canadian hands. I do not know how the miracle is going to be performed because there are third parties who have something to say about it—the audience and the advertisers.

Senator Desruisseaux: I believe we should clarify one particular point because of the contradictions we have had in statements.

They said the cutting back of Buffalo availabilities would still leave the big Toronto stations full up but the lessening of the total availabilities would mean less total selective buying and hence less money in TV for the minor markets.

2) In addition it was pointed out that the law of supply and demand was causing the cost of buying in Toronto and Vancouver to rise out of proportion to television in the rest of Canada. (This rise in cost for major markets is not just a rate card rise but is also caused by forcing advertisers to buy 52 week schedules if they want on the air in the best times and forcing advertisers to buy large amounts of fringe time if they want prime time).

Could you elaborate a little on that, because of the statements which were previously made?

Mr. Arries: I would say we cannot comment on the Vancouver market. I believe you will have witnesses before your committee later on today who will be able to address themselves to that point.

As far as our understanding, in discussions with Canadian agencies and Canadian companies, they do believe that the smaller markets of Canada will suffer. Because Toronto and Vancouver are such important markets to advertising in television in Canada, if they cannot be used properly to sell a product or service, then those advertisers have the choice of dropping out of television, which would mean out of using smaller markets in Canada. I believe that is a true statement.

Mr. Beuth: In terms of a total market plan, without those two major cities, the advertising might very well go to the other media. I believe that has been explained exhaustively by the previous witnesses, particularly those in the advertising business. It is a rather complicated situation, but it is a marketing truth.

Senator Flynn: I would mention that this point was made, I believe, in a letter which was circulated in the committee by Mr. Pouliot of the Quebec TV stations.

Mr. Beall: We would agree with that statement basically. The medium sized advertiser-user potentially could be forced out of the media.

The Chairman: Are there any other questions? . . . Thank you, for attending.

Mr. Arries: Thank you, Mr. Chairman.

The Chairman: The next presentation will be made by Channel SeventyNine Limited, CITY-TV. We have Mr. Znaimer, who is the president of Channel SeventyNine Limited, CITY-TV, and we have counsel, Mr. J. S. Jrafstein, Q.C.

I believe Mr. Znaimer is going to make an opening statement.

Mr. Moses Znaimer, President, Channel SeventyNine Limited, CITY-TV: Honourable senators, I hope you will forgive me if I am a little nervous this morning; I have never been before the Senate before. I am one of the founders and I am the chief executive officer of Channel SeventyNine Limited operating CITY-TV.

CITY-TV is Canada's smallest and most fragile television station. Despite that, I believe there would be general consent to my suggestion that CITY-TV is also the most dramatic success story in recent Canadian broadcast history. By that I do not for a second mean to suggest that we make the most money or that we show the best return on investment in the trade because, for the time being, we sure do not.

As a matter of fact, the harsh truth is that our company has to date lost \$2.5 million. What I mean to suggest is that in an industry whose base investments are normally counted in the tens of millions of dollars, and in a city that itself must be counted to be the toughest television market in the world, still our little company has managed to stay alive and to flourish, with no more than several million dollars behind it.

Honourable senators, my station broadcasts 16 hours a day, and it does so in 11 different languages. It invents a kind of public affairs access and business television program that even a few of our larger competitors have begun to emulate. It employs 120 people at an annual payroll in excess of \$1.5 million. It does all this by entertaining, informing and, from time to time, shocking a growing audience of Toronto centered people.

I believe that more and more people are growing to like CITY-TV because we have shown integrity in the way we have honoured our commitments, which is to say our promises of performance. I believe more people are liking CITY-TV because we have shown a little imagination in our programming and because we have demonstrated a tremendous amount of determination in the face of the usual skepticism and the usual resistance that a new enterprise will find.

It is no secret that when we first went on air hardly anyone gave us any chance at all, and that includes many of the firms that make up the ICAs and the ACAs who now tell you that this bill will not work either. Well, the station is still alive; it is full of fight; it is growing well. As to this amendment to section 19 of the Income Tax Act, I am from the front lines—you could say I am fresh from the trenches out on Queen Street—and I am here to tell you that Bill C-58 really does work.

Senator Laird: When did you start buslless?

Mr. Znaimer: We went on air, sir, in late September 1972.

Last year, in the latter part of the winter and spring of 1975, shortly after the introduction of this bill in the house, the American VHF stations, suddenly faced with a real threat to what is an obvious gold mine, and spurred on, I think, by a weak American economy that had left them with substantial vacant inventory, began to noticeably cut their rates. I am sure questions will come up, and I am prepared to defend those allegations. The cutting of those rates hurt us tremendously. New revenue dried up for us and a lot of old contracts which had already been placed were cancelled because people wanted to take advantage of bargains that were available across the street.

Our estimate is that in fiscal '75, which is to say the year ending August, 1975, that whole thing cost us about \$300,000. And in the first four months of the fiscal following, which is to say September through December of 1975, it cost us about an equal amount. But then a funny thing happened. Bill C-58 cleared second reading in the House of Commons around November of the year, as I recall. It got

through the committee investigation and all of a sudden a whole load of fresh and long-term business began to appear at our doors in January and February of 1976, when normally business is down for the trade in general and usually does not exist for a station as small as ours.

It seems to me that someone in the Canadian advertising business had suddenly decided that this government was possibly serious about the whole thing and had begun to work some of the new marketing strategies and to re-deploy the necessary resources in order to establish a franchise with some of the newer Canadian companies. All the major agencies, all the major advertisers are now either buying time on CITY-TV or will buy time on CITY-TV in the fall of 1976, and with good reason. Our schedule growth is stronger, I think predictably with every season, and finally with the advent of the CN Tower our signal has grown stronger as well.

We expect '76-77 to be our first great year, our first really big year. You can understand my chagrin, then, when I hear on the street that Bill C-58 appears to be in trouble in the Senate. I find that hard to believe, because after all it does not seem reasonable to me that my Senate, the Canadian Senate, would "unpass," by delaying, something that has already been psychologically passed, not only in the public's mind but, I put it to you, in the minds of the advertising industry, in the minds of our fellow American broadcasters with regard to Bill C-58, and, I suspect, in the minds of their government as well.

Senator Macnaughton: May I ask you a question? Don't you think the Senate committee should take sufficient time to study carefully any piece of legislation?

Mr. Znaimer: Absolutely, sir.

Senator Macnaughton: Whether you like it or not.

Mr. Znaimer: Absolutely. That is why I am here.

Senator Macnaughton: Then why make a statement like that?

Senator Laird: You won't get far that way, you know.

The Chairman: You mean the statement at the end of the review?

Senator Macnaughton: He is objecting to our taking time to review after another committee in another section of Parliament, which is only 50 per cent of Parliament, has made up its mind that the people of Canada have made up their mind. It is a silly statement.

Mr. Znaimer: No, sir, if I can be more precise. I don't at all contest your right to do this. I endorse your right to do this. What I am saying is that there has been a suggestion that this bill does not work, and a lot of the argumentation relates to people supporting the objects of the bill but being uncertain whether this bill will do the job. What I am here trying to tell you is that the bill does do the job.

Senator Desruisseaux: We are here to hear anyone who has anything to say about the bill.

Mr. Znaimer: Absolutely.

Senator Desruisseaux: That is our mission.

Mr. Znaimer: Absolutely.

Senator Davey: That is why the witness is here, so that we can hear him. So let us listen to him.

Mr. Znamer: I have spent a lot of time following the process of this debate through the Senate. I have read *Hansard* pretty carefully. I am trying to understand your thinking, and I want desperately to understand your thinking. If I have understood your thinking properly, it seems to me you are primarily concerned with two, possibly three, things. I take it from reading *Hansard* that many of you are free enterprisers. You are businessmen, and you have a natural suspicion of any kind of government meddling, and this whole thing smacks to you of protectionism, which you oppose. I want to tell you that I am a capitalist too, and I endorse that point of view: I am for keen and stiff competition. What I do not like doing is playing with a stacked deck. It is my view that so long as our American competitors are afforded major market incomes based on minor market costs, so long as their broadcasts of programs for which I have bought exclusivity in the Toronto market drift over into my market and fragment my audience and draw dollars away from me, so long as I have to put out \$2.5 million a year to create Canadian content shows, which amounts to nothing more and nothing less than a penalty, if you will, for my being a Canadian citizen, while they can broadcast in the same area without spending one red cent, I put it to you that the competition is not free, is not fair, and what you could do to help it become a little more free and a little more fair is endorse the passage of this bill.

In reading *Hansard* I think another thing that bothers some of you is that, in fact, you support the purpose of the bill but, as I say, you are not certain whether this is the bill that will do the job. The question has been raised whether there will be enough good availabilities, for example, in the Toronto market, and whether those availabilities will be available at decent prices. My answer to you is that the answer to both those questions is yes, because you see the absolute number of minutes available in our market will not change at all. The only thing that will happen is that the cost of doing the business in the United States will go up slightly, and that will create an incentive for Canadian advertisers to place that much more money on Canadian stations.

The only thing that will happen, if Global or CITY-TV, or the new station being built in Vancouver, take in a few more dollars, is that they will re-invest those dollars. They will re-invest them in the production of better Canadian shows and in the purchase of better foreign shows. That will inevitably lead to better audiences, and that, presumably, is what advertisers want. It is what we all want.

The other caution that has been raised is that the time might suddenly go up in price because the stronger Canadian VHF stations, which are already entrenched in the market, will experience increased demands and will therefore increase their prices unconscionably. Again, it seems to me that in the near term the AIB will obviously prevent that. But in the long term, if advertisers were to act calmly, if they did not just stampede CFTO with all these dollars that were suddenly freed up, say, from Buffalo, but elected to distribute those dollars by placing good weight both on CITY and on Global, they would stimulate our growth cycle. The extra funds would generate new shows. The new shows would generate the more competitive prices related to the better audiences, which is again what we all want.

I grant that this bill is not perfect—I don't know anything in life that is perfect—but it seems to me that to delay any action at all while we search for something

perfect is really to avoid the issue and to stall proceedings. I don't believe that anyone in this room will deny that a respectable, well-financed Canadian presence belongs on our airways. So I urge you to please start with this bill, because, in the language of advertising, "it really does work".

The third possible problem, if I have read you correctly, that may concern some of you—and I think in some ways it is the thorniest—is the possibility that Bill C-58 may irritate a friendly elephant, our neighbour, the United States of America. It is my conviction that the United States of America is a fair-minded neighbour, and one that is growing increasingly aware of Canada's special problems and special aspirations. It seems to me, as a Canadian citizen, that legitimate American interests do not include involvement in the internal tax structure of this country, and it is my belief that Americans know that. Even the ambassador, in his most recent communication, has in fact agreed to that proposition. So what the situation amounts to is a proposed act of the Parliament of Canada on the one hand, and on the other a number of U.S. border stations who have already done well over the years.

Because I say that kind of thing, honourable senators, and because I have, on occasion, looked to my government to see that our industry gets a fair break—not an unequal edge, but just a fair break—I have, from time to time, been accused of being anti-American. I find that a really sad joke, because I am full of nothing but admiration for America and for Americans. It is my counsel here who represents the parochial element. I was speaking to him yesterday, and he told me he only went to three Canadian universities, whereas I did my graduate work at Harvard. I am crazy about Americans, and I guess my point here is that I would like you people to be more American.

Senator Macnaughton: Did you bring a flag with you?

Mr. Znamer: I would ask you to afford me, my industry, and some of the smaller aspects of the Canadian broadcasting scene the same kind of natural consideration and active support that the American government routinely gives to its citizens and licensees.

I would like to make a prediction as to what will happen if you speed the passage of this bill. It is only my personal opinion, but I put it to you that Americans would respect us that much more, since I believe that Americans admire people who stand up for their own rights, which is all that CITY-TV wants.

The Chairman: Do you believe that the purpose of this bill is to inspire more confidence in Canada on the part of the Americans?

Mr. Znamer: No, sir. The purpose of this bill is to strengthen the Canadian broadcasting industry, and I do not feel that concern about American reaction is sufficient reason to impede the bill, because what we want to be is a self-respecting broadcaster in a self-respecting country. Thank you.

Senator Haig: Mr. Znamer, where is your station?

Mr. Znamer: It is located in Toronto, sir.

Senator Haig: That is a rather large city. Is it north of Toronto, or where?

Mr. Znamer: No, senator, it is located in downtown Toronto, on Queen Street.

Senator Haig: You are a private company?

Mr. Znaimer: Yes.

Senator Haig: What is your A coverage? What area does it cover?

Mr. Znaimer: Until about a week ago our A coverage covered essentially a very tight definition of Metropolitan Toronto—no further, really, than Clarkson to the west and Ajax to the east. With the advent of the CN Tower our contours are significantly expanded, and we will reach as far as Hamilton to the west, slightly to the east of Oshawa on the east, and about to Keswick to the north.

Senator Haig: You state you are on the air 16 hours a day. What are those hours?

Mr. Znaimer: Well, we begin about 7 a.m. and run through to midnight, but vary slightly with each day of the week. The average is 16 hours a day.

Senator Haig: You are on the air 7 days a week?

Mr. Znaimer: Yes, we are on the air 365 days a year.

Senator Haig: Are you on radio?

Mr. Znaimer: No, sir. We own no other media. It is a single, independent television station. We have no network affiliation and are owned by no broadcast group.

Senator Haig: Thank you.

The Chairman: Mr. Znaimer, you have studied the situation. If the border stations decided to lower their rates, the effect would be that they would get, or retain, some of the advertising business that they now have. Is that right?

Mr. Znaimer: Yes. I am convinced they would retain it.

The Chairman: Are you assuming that the border stations, when they see business slipping away from them, and being taken by your company and other companies in Canada, will not make some effort to defend themselves, even by reducing their rates?

Mr. Znaimer: No. That is precisely my point, and that is why I find it so amusing that the testimony of the American broadcasters to date is that they absolutely have not cut rates, and would not cut rates, because the fact is that that is their only reasonable reaction.

The Chairman: I do not think I heard the witnesses here this morning saying that they would not cut rates. They said they have not done so.

Senator Cook: I do not think they said they had not cut rates. What they did say was that the same unit of time was charged the same amount whether it was to an American advertiser or a Canadian advertiser, or whether it was a local advertiser or a national advertiser. That refutes the charge of dumping.

Mr. Znaimer: Absolutely, sir.

The Chairman: Well, or course, that is something this bill cannot control.

Mr. Znaimer: That is right, but there is an interesting piece of psychology at play here, and I think our experience at the latter part of 1975 and the early part of 1976 points to it. There are a lot of advertisers who do not want to contravene the spirit of the law in Canada. Once it is clear to them that it is the will of the government of

Canada that they redeploy dollars in support of the Canadian broadcast system, I am convinced they will do so.

Senator Flynn: You said that they have already done so.

Mr. Znaimer: It has been our experience, sir, because media plans are generated in advance. This thing has been discussed for many years.

Senator Flynn: Would you say, and would you be able to produce examples to show, that some advertisers have ceased using the border stations in the U.S., in order to go to you?

Mr. Znaimer: Yes, absolutely.

Senator Flynn: Have you some definite cases to bring forward?

Mr. Znaimer: Yes. There are a number of large advertisers who, in years past, have not used CITY-TV, for a number of reasons—

Senator Flynn: I know you may get new business, but I was asking you whether you have already taken away business from the U.S. stations.

Mr. Znaimer: The answer is yes.

Senator Flynn: Have you some examples to prove that?

Mr. Znaimer: I do not happen to have the list with me, but I do know that in the latter part of 1975, when the passage of the bill seemed fairly assured, or at least, the impression in the industry was that it was going ahead expeditiously, there were significant conversations within the advertising industry located in Toronto as to what the attitude of agencies and advertisers would be, and we were informed by a large number of advertising agencies that at such point in time as Bill C-58 became law they would begin to redeploy their resources.

Senator Flynn: You are now speaking of expectations, but you have told us that it has already taken place. That is what I am interested in.

Mr. Znaimer: What I am saying is that because of expectations strategy begins to shift since an advertiser who has no representation on CITY-TV, or on Global, wants to establish his franchise with this or that station in view of the fact that he expects he may have to do business with it downstream.

Senator Flynn: That would suggest that there has been a decrease in advertising in the U.S. stations. Is that a fact? Can you say that this is a fact?

Mr. Znaimer: I do not think the movement has been significant enough to enable us to tabulate an increase or a decrease.

Senator Flynn: That is what you suggested when you mentioned that the first time.

Mr. Znaimer: Sir, I suggested that we experienced an unusual and rapid acceleration in business, and that we attribute this to the effect of Bill C-58.

Senator Flynn: And you are sure you cannot attribute it to your progress, to your own increased efficiency?

Mr. Znaimer: Given the timing, I would have to say no. You see, our efficiency is higher, for example, as is that of

most broadcasters, in the first quarter of the year, when you get peak viewing; yet this business came to us in precisely the null period, which is January, February, and the beginning of March.

Senator Flynn: We do not dispute the fact that you consider that this bill would be helpful to you; but do you suggest that we should consider the viewpoints of those who do not share your opinion.

Mr. Znaimer: Certainly.

Senator Manning: Mr. Chairman, the concern of this witness is that the Americans were taking the advertising market away from the station with which he is connected. Is it not a more factual statement to say that it is the preference of the Canadian viewers that makes it possible for, and attracts, Canadian advertisers to place their advertising on U.S. stations? What you are really saying is that you want the U.S. stations penalized because a sufficient number of Canadian viewers prefer to watch U.S. television and they do so to an extent that makes it attractive and financially advantageous for Canadian advertisers to advertise on those stations rather than on some Canadian station. So is it fair to penalize the American stations because of a situation which was not created by anything done by the American stations, but because Canadian viewers in large numbers prefer to watch United States stations, and the advertisers in Canada know that if you want to get a good advertising audience, you need to advertise on U.S. stations in the border area?

Mr. Znaimer: What you say, senator, is true, but history is not static. If you had looked at the situation a number of years ago, you would have found that the overwhelming bulk of listenership by Canadian listeners along the border was to U.S. radio stations. If you were to check that situation today, you would find that the overwhelming bulk of that listenership is to Canadian stations. The question is whether there is a situation in this finite moment where there is a lack of willingness to help our system support itself and to improve so that our dollars can be repatriated.

I think a more direct analogy is probably the case of this famous television station in Tijuana. I don't know if you are familiar, sir, with the television station that was established in Mexico for the express purpose of servicing the San Diego market. The reason was simple. The obligations on a Mexican broadcaster are not as severe as those on American broadcasters, more particularly because Mexican broadcasters are not prohibited from carrying commercials for cigarette manufacturers. This Tijuana station got a significant supply of programs from the ABC network and entered very effectively into the competitive American market. Two things happened; the American government approached the Mexican government and got from them a general agreement that they would not licence or condone broadcasting operations that were primarily focused on servicing markets in the other country, and secondly, the FCC put sufficient pressure on ABC network so that they stopped their flow of programs to that Tijuana station, and, lo and behold, that Tijuana station no longer broadcasts today.

Senator Manning: There is not much parallel there. I do not think anyone would attempt to say that the U.S. stations in Buffalo were set up and designed to program into the Canadian market exclusively. The Canadian

market, to them, is incidental; it is a big market, but it is not the market for which they were established.

Mr. Znaimer: That is not true of KVOS, senator. KVOS takes about 95 or 96 per cent of its revenue from the Canadian market, and that is \$8 million a year. The second consideration is not the 30 per cent level of sales that Buffalo generates out of Canada, but the fact that that 30 per cent level of sales constitutes practically their entire bottom line. Their entire profit, and a very handsome profit I might add, is gravy that is drawn out of the Canadian marketplace.

Senator Manning: But that is possible only because of the preference of Canadian viewers for those stations. What you are really trying to do through this legislation is to say to Canadian advertisers that while the Canadian people are going to watch these American stations because they prefer them, we are going to penalize American stations by refusing to allow advertising as a deductible expense.

Mr. Znaimer: If I might add one other point, senator, one of the reasons Canadians prefer American stations and why the American stations are so powerful is again that in this industry, as in so many others, they came first and they occupy the best frequencies. The nature of their economy is such that they can generate these phenomenally attractive shows. Any investigation by Canadians as to how they can compete through improved services runs up against the wall that there are not sufficient dollars in Canada. When you go looking for those dollars you find that a good healthy chunk of them—the cream of the top of the system—is taken out by American broadcasters. I would not mind, senator, if the rules were the same on both sides of the border. But I am obliged by this government through the CRTC to put out 60 per cent Canadian content. But because I don't have the resources, the shows that I put on to make up this 60 per cent are not as attractive as the hours of police adventure and situation comedies made in the United States which cost a quarter of a million or \$300,000 an hour. So here is one element of government imposing a ball and chain on my foot while another element, with some of you senators, is saying, "Why can't you compete directly?" I would like to get off the hook. That is really my point. If you like free competition, I don't think I should be forced to provide 60 per cent Canadian content. I have an obligation to the national system which I have accepted because that is one of the rules of the game, but I think the guy who is competing should have some obligations as well.

Senator Manning: I can see your point about the disadvantages you face regarding Canadian content rules. I think it is unfair. But what disturbs me is that on the one hand we have the Canadian government attaching these rules to Canadian stations which, I submit, have done far more to retard good television in Canada than all the American competition put together.

Mr. J. S. Jrafstein; Q.C., Counsel to CITY-TV: Senator, I have to say to you that I fundamentally and distinctly and with all of my fibre disagree with your proposition that Canadian broadcasters should not be producing Canadian programs made in Canada with Canadian talent and Canadian writers and Canadian producers. I disagree fundamentally with that proposition. If you, as a senator, suggest that you disagree with that fundamental policy, then I am telling you on behalf of the literally hundreds of people pouring out of our universities right across this

country—and I have travelled all across this country—from Newfoundland to Vancouver Island—that they fundamentally disagree with that proposition. I am not a nationalist, but I am a Canadian, and I believe that in Canada we broadcast for and on behalf of Canadians. I just cannot understand that proposition, and, even more important than that, I cannot translate it for people who are coming to me and saying to me, “Jrafstein, how do I get into the broadcasting business? How do I do it?” If your proposition is correct, then I must say to them, “Sorry fellows, you had better go down to L.A.” That is what has happened to some of our great talent in this country. If you take a look at some of the great American shows, do you know by whom they are produced? Do you know by whom they are written? By Canadians. And do you know why? Because somehow they felt that there was not an opportunity in this country. And for this Senate to take that position in any way, shape or form is just inimical to everything that I understand—and I am not, as I said before, a nationalist like my friend Senator Davey.

Senator Manning: I do not disagree at all with the desire and the importance of a Canadian broadcasting industry, but all I am saying is that if we are going to try to impose it by legislation, then that is not the way to do it.

Mr. Znaimer: I would like to take this microphone away before counsel does me more harm than good. But if you concede the proposition that we are obligated to this Canadian content rule, whether or not you agree with Mr. Jrafstein, can't you see that by impeding this bill what you are really doing is to perpetuate the inequality across the border. So that what you get as a result is not free trade, but precisely the reverse. So I say as a pragmatic businessman, “Put me on the hook or get me off the hook, or rather put them on the hook or get us off the hook”. What is happening right now is that we are caught in this ridiculous never-never land.

Let me give you a perfect example. There is a UHF station in Los Angeles, the shining jewel of the largest UHF broadcaster in the United States called Kaiser Broadcasting. This station in Los Angeles, which makes money, thank you, is run by eight people, two videotape machines and one tele-cine chain. They originate one half hour per week of local production. CITY-TV, if I were to run that kind of station, basically running canned programs, a sales apparatus and a traffic department, it could run very well with a maximum of three dozen people. I employ 120.

The Chairman: Right on that point, Mr. Znaimer, are you suggesting in your example that the situation in Los Angeles is comparable to the situation that exists at this moment in Canada?

Mr. Znaimer: No; that is my whole point.

The Chairman: Then why are we discussing it?

Mr. Znaimer: Well, because it is exactly an example of the inequality that we face. There is a similar station, channel 29 WUTV in Buffalo. Let us not even deal with U's; let us deal with VHF stations.

The Chairman: Well if you do not wish to address yourself to the answer, I do now know why we should continue with it.

Mr. Znaimer: I do; I would like to make it germane to our market. The combined VHF stations in Buffalo, with all their power and all their money, the last time I looked—

you might take this up or down an hour or two—combined, produced 37½ hours a week of local production.

The Chairman: You know, the marvel is that you have been increasing your business with that kind of competition.

Mr. Znaimer: Yes; I think that is testimony to the fact that we have put in a great deal of work and taken a very bad beating. This is another kind of “Catch-22” that we are always in. The advertisers come along and say you can't pass this bill because they are really not doing well enough; they have not got anything that interests us. Someone else says if you are doing well enough, you really do not need this bill. People who oppose the publishing side of this bill come forward and say if you put this bill through the money will run away from print. People who oppose the broadcast side of the bill say if you pass this the money will not stay in television but will run into print. I say it is “Catch-22”; we are in the middle. We are Canadian citizens and we have come before this forum; as we have gone before other forums in the commons, to look for some kind of help.

The Chairman: I addressed a question to you a while ago, to which I do not feel I received an answer. That was, let us assume that the border stations reduce their advertising rates by half to two-thirds, what would be the interchange of business under those circumstances? That reduction would certainly equate the net position of the Canadian who is not able to deduct the amount that he pays out?

Mr. Znaimer: I was trying to give you the answer. It is clear that not all the dollars that are currently spent in Buffalo will suddenly stop, so for the American broadcasters to come here and say that they are facing this terrific disaster is inaccurate. They do have the option of dropping their rate, which they will likely do and some advertisers will continue to advertise. However, because the major corporations in this country are frequently subsidiaries of American corporations and because they want to be good corporate citizens, we also know that a good portion of the money will try and find a home on the Canadian side of the border because stations such as Global and CITY are in that never, never land where they are not quite profitable enough—they are not profitable at all—to do a better job but have not yet gone down the tubes, and a small incremental dollop of money will do an enormous amount. So, if we are talking about \$10 million and only half of that comes across the border, if \$500,000 of that came to CITY-TV it would radically change the conditions of our life. We would have a kind of confidence on the street, access to additional investment funds and we would be a profitable legitimate corporation, instead of one that is sort of hovering on the brink of break even, which is our condition today.

Senator Lang: Is CITY-TV breaking even now?

Mr. Znaimer: We have, as I said, accumulated losses over our first four years.

Senator Lang: Yes, I know that.

Mr. Znaimer: This fiscal year ending August 31, 1976 we will break even. A lot of that, I say, was with the implied advance help of this bill.

Senator Lang: Do you think this bill is having an effect on you during the 12 months period ending next August?

Mr. Znaimer: Yes, we are experiencing an unusual, healthy burst of business from advertisers who, if they are left to their own devices, have practices which have been established over the years.

Senator Lang: What was your loss in the preceding year?

Mr. Znaimer: Approximately \$400,000; the year prior to that was approximately \$800,000; and the year prior to that was in excess of \$1 million.

Senator Lang: But you assume that this year will be a break-even year at the end of August?

Mr. Znaimer: Yes, sir.

Senator Lang: What dollar figure would you put on your increased coverage regardless of this bill?

Mr. Znaimer: It is hard to say, sir; 20 per cent, 25 per cent maybe.

Senator Lang: So you would be in a profitable position?

Mr. Znaimer: That is not entirely net, because with that increased coverage we have increased costs. The cost of moving to the tower was astronomical; the cost of staying on the tower is very high; and our cost of product, because we are now reaching a larger area, goes up commensurately. So the net impact is not entirely clear. However, there is no question that any extra dollar that comes to us by reason of the impact of this bill becomes a bottom-line dollar. So it has a radically important impact on the conditions of our life.

Senator Macnaughton: And, therefore, its passage should not be delayed?

The Chairman: It is a bottom-line dollar so far as the border stations are concerned.

Mr. Znaimer: That is right.

The Chairman: They have Canadian operations; they pay taxes.

Mr. Znaimer: No, they do not, sir. You heard these gentlemen saying they do not pay taxes and their only leavings, if you will, for Canada is through the medium of sales commissions. They do not spend one red cent producing Canadian programs in Canada with Canadian employees, using Canadian talent.

Senator Flynn: That is not what your counsel said, because he said that some of these programs are produced by Canadians who have emigrated to the United States.

Senator Cook: You said that you employ 120 people?

Mr. Znaimer: Yes, sir.

Senator Cook: What is the breakdown; in what branches are they employed?

Mr. Znaimer: Well, as I put it to you, if we were dealing strictly with a managerial, sales and very thin operational staff, which is all that we would require if we were running canned shows that we could buy from typical American suppliers, we could run the station with possibly as few as 30, maximum 36. So we employ 90 in order to make Canadian content. They fall into editorial categories, which is to say producers, directors, script assistants, on-air personnel and researchers. The operational categories

include cameramen, audio people, technicians, engineers—that kind of thing.

Senator Cook: These 90 people are all steady employees?

Mr. Znaimer: Yes, sir.

Senator Cook: What shows have you produced?

Mr. Znaimer: We have a daily show called the CITY Show, which is distinguished in our market because when we went on air in 1972 the amount of local news and public affairs analysis that was done in Toronto was woefully low. Toronto always got a kind of 10-minute adjunct. We came on air with two and one half hours a day in prime time of local information. I might say that we introduced to Canada, and I think to North America, the first daily business program. We have a show called the Money Game, which is on every day, in prime time, eight o'clock, half an hour a day. It deals with a subject that I feel was sorely missed on Canadian broadcast air, which is the business of business.

Senator Cook: You call these public affairs programs?

Mr. Znaimer: Yes; well, the best equivalent is Money Game, which is our show. It is a video equivalent of the *Globe and Mail's* report on business.

Senator Cook: How many people are employed in these two shows? I do not mean the technicians.

Mr. Znaimer: The CITY Show would employ about 20; Money Game employs about five.

Senator Cook: What do these 20 persons do?

Mr. Znaimer: They are, as I said, producers, directors, reporters, cameramen, researchers and on-air personnel.

Senator Laird: On your financial program, I presume you are able to get some services volunteered by advertisers and others?

Mr. Znaimer: No, sir.

Senator Laird: You pay for all of that?

Mr. Znaimer: Our guests, the people who appear—typically because they are not professional broadcasters and they are coming on to talk about themselves—do not get a fee for that. For any service that we get, whether it is from business news or the ticker, we pay for.

Senator Laird: Your professional expenses would be with your technicians—that is, your engineers, directors, and so on. As a matter of interest, are you organized? Is NABET in your place?

Mr. Znaimer: Ours is not a union shop in terms of the technical aspect. We do have, however, an agreement with ACTRA, which is the performers' union in Canada.

Senator Laird: I know it very well.

Mr. Znaimer: So do I.

Senator Flynn: I was interested in what you said about broadcasting in 11 languages. What kind of programs would they be?

Mr. Znaimer: Well, multilanguage programming was an important...

Senator Flynn: Tell me what kind of programs.

Mr. Znaimer: Very much the same kind that we would produce in the predominant language, which is English. It is not canned; it is public affairs, and it communicates with very large communities. There are something on the order of 400,000 Italian-Canadians in Toronto, and we broadcast just short of 10 hours a week in Italian, with news, views, community information, and that kind of thing. Other languages that we broadcast in are Portuguese, Greek, Ukrainian, Chinese, and so on.

Senator Haig: In French?

Mr. Znaimer: We will have, sir. I take that question very seriously. We had planned to broadcast in French. It was in our original submission. But Toronto now has its very own full-time French television station.

Senator Cook: We have heard so much about Canadian shows, Canadian talent, and Canadians on TV. I am trying to develop what is the actual share of the budget of CITY-TV devoted to what one might call public affairs—all programs; and, secondly, if CITY-TV is going to get a larger share of increased revenue, how much would go into Canadian shows. What are your plans? It has all been very vague.

Mr. Znaimer: That is an excellent question, sir. Perhaps I can put it in terms of our budgetary expectations for next year, which is what we are working on. We expect that next year we will make a major leap forward. We are looking to expenses of about \$5 million. Of that \$5 million, about \$1.6 million is what we spend to buy programs that are made by producers other than ourselves. If you calculated that maximum, \$400,000 is what it would cost us to have the support staff to put those programs on the air—because all you have to do is take a film out of a can, put it up on a chain, edit it if necessary, tuck in some commercials, and sell those commercials. We are looking at about \$2 million worth of expenses unrelated to our own production. That leaves \$3 million that we will spend next year, because we are Canadians, because we are obliged to, and because, as Mr. Jrafstein said, we want to and we like to.

Senator Cook: How much will be spent this year? It will be \$3 million next year, if all goes well. How much this year?

Mr. Znaimer: The relationships are fairly constant. Our expenses this year will fall just short of \$4 million. So if you gave it the same two-fifths analysis, I think you would find it would give you the right figure. It is about \$2.2 million.

Senator Cook: It is \$2.4 million. How much of that \$2.4 million—and the \$3 million which hopefully you will spend next year—will be actually spent on Canadian talent—

Mr. Znaimer: That's it.

Senator Cook:—apart from technicians and so on. How much is going on live talent?

Mr. Znaimer: I am trying to take a quick index. Our above the line and below the line split at the station is about 60-40, the overhead taking the larger share. So about 40 per cent of \$2.4 million is what we spend in cash for writers, researchers, reporters, producers, directors, as opposed to technicians, studios, cameras, and so on.

Senator Cook: Pretty well \$1 million?

Mr. Znaimer: Yes.

Senator Laird: What about performers?

Mr. Znaimer: That is again a sliver. It is very difficult for me to bring that figure forward. But \$1 million is a significant amount of money. That is out of an enterprise that everyone concedes is terribly small. If you check back with us, if we do not get killed this year, if we get any kind of reasonable response, in two or three years you will find that CITY-TV will be an even more significant contributor to the Canadian economy than it is already.

Senator Molson: What is the ownership of your station?

Mr. Znaimer: I wish I knew sometimes. We are the most widely held private company that I know of. We are entirely held by local investors, not one of whom owns more than 7 per cent of the outstanding equity. The nature of CITY-TV's organization was an attempt to reflect in ownership the same kind of economic, ethnic and professional distributions that you might get in the city in which we work and live.

Senator Molson: How did you do that? Put out an issue—

Mr. Znaimer: No. Gerry and I very painfully went and saw a whole lot of people, one by one, and raised some private capital. We have a board of directors, by the way, which comprises 21 people.

Mr. Jrafstein: And they are all active participants.

Senator Desruisseaux: How many shareholders?

Mr. Znaimer: The founders comprise myself and three partners, of whom Gerry is one. There are also a number of key station personnel to whom we have granted options. So overall there are about 40 shareholders.

Senator Desruisseaux: Now?

Mr. Znaimer: Yes, all of whom reside in Toronto.

The Chairman: We have just about run the gamut on the presentation, unless there is anything which someone wishes to add.

Senator Davey: Mr. Chairman, I have some questions to ask.

The Chairman: May I give you the injunction, please, to make the questions short, because we are operating on time limits.

Senator Davey: Yes. I shall be as brief as I can. Firstly, the example you gave us of the station at Tijuana—what year was that?

Mr. Znaimer: You catch me a little unprepared on that.

Senator Davey: Will you let me know?

Mr. Znaimer: Yes, I will.

Senator Davey: Secondly, ICA appeared before this committee. They are against this legislation. Allegedly the advertisers will not use your station. We have been told that repeatedly. I have a list of the 10 largest television advertisers in Canada. I would like to read the list and ask how many of those advertisers use your station: Procter and Gamble, General Foods, the Government of Canada, General Motors, Colgate-Palmolive, Warner-Lambert, Bristol-Myers, Kraft, Molson and Ford. They are the 10

largest television advertisers in Canada. How many of them use CITY-TV?

Mr. Znaimer: All of them except two. Currently neither Procter and Gamble—and, if I am not mistaken, Kraft—use CITY-TV. I do not want to put the black mark on this, because I want them very much to use CITY-TV, and I expect they will begin to use CITY-TV. Currently, for the first time in our history, we are in negotiation with Procter and Gamble for a very large 52-week contract. All of them use CITY-TV except two; and I put it to you that in the 1976-77 season we will have all of them.

Senator Davey: The point is that advertisers come here and tell us that they will not use your station, and yet all of them, with the exception of Procter and Gamble and Kraft are using your station now?

Mr. Znaimer: Yes, and they are negotiating to use us more, and God bless them!

Senator Davey: You made an appearance before the LaMarsh Commission. You spoke on the subject of violence on television, relating it directly to Bill C-58. Can you tell us briefly what you said to the LaMarsh Commission on Violence?

Mr. Znaimer: I hope I can make this lucid. I was trying to make the case before the LaMarsh Commission about this "Catch-22" situation in which we find ourselves. What I said before the LaMarsh Commission was that if I objected to the commission it was because it seemed to me it deflected attention from the fundamental issues. I said that if everyone in the room at the time, at 5 o'clock, agreed that violence on television was the most pernicious thing that had happened to Canada, at 9 o'clock the next day nothing would happen, because if you examine Canadian television you will notice that the overwhelming bulk of violence on Canadian television is imported. Ninety-nine per cent of that violence is imported and, typically, it is imported through the medium of these beautifully produced, very exciting, very effective American entertainment shows.

My purpose in making that point was to draw attention to the fact there is a relationship between the kind of reaction a lot of Canadians have—and I think possibly some of you have—to the undue level of ancillary exploitable violence in entertainment and Bill C-58. If the LaMarsh Commission and this committee object to this violence, then you have to get the American shows off the air, and you cannot accomplish that unless you supplant the American shows with good quality Canadian material. The economic base of Canada is not sufficient to provide that, particularly in a condition where \$20 million a year gets siphoned off the top.

What I was trying to say before the LaMarsh Commission was that violence on Canadian television, unless we are prepared to do something very fundamental, will only abate, or will in fact increase next year, entirely at the whim of a number of American programmers and due to the fashion of American society. When it becomes unfashionable in the United States to produce that kind of material, we will get less violence on television. If we want to change that in any way, then we have to look to beefing up the economic base of Canadian television. When we do that—for example, through the medium of Bill C-58—there are a number of significant objections raised. Once again, the Canadian broadcaster finds himself in this never-never-land where one government objects to what he is

doing, knowing that he really cannot do much of anything else, while another government does not find it convenient to give him a hand, if you will.

Is that sufficiently clear?

Senator Davey: Yes.

Senator Lang: Do we have some Canadian content violence on television?

Mr. Znaimer: I would say very little, senator.

Senator Davey: Just hockey! You were mentioned in the brief presented to us by the Buffalo stations. In that brief it states:

... Moses Znaimer, has been making the "dumping" complaint.

And it goes on to say that the Buffalo stations are prepared to furnish proof to the committee, and so forth. I think you were in the room and heard that discussion. Are you prepared to furnish proof, or can you furnish proof, that they are dumping? Can you substantiate the charge to which they have referred?

Mr. Znaimer: Yes. The first thing I want to do is to get out of the semantic problem. I think there is a problem with the word "dumping." Dumping has to do with where or not one is selling at the same level on both sides of the border. The charge that has been made by both Allan Slaight and myself is that the Buffalo stations sell in the Toronto marketplace at below the going rate in the Toronto marketplace when it suits their purposes to competitively damage the Canadian broadcasters. To support that, I can quote you chapter and verse. I have examples, if you want me to read them into the record.

Senator Davey: Perhaps you could leave them with the chairman. I would like to look at them. I do not think we need take the time to read them into the record.

Mr. Znaimer: If I could read something into the record, I have here—and this is important, because you judge information as to its source, and obviously I have an interest in the information that I give you, as to the American broadcasters—I have here a study from an utterly impartial source. It is an investment brokerage firm that does analyses of American broadcast stocks out of New York, and it is called Faulkner, Dawkins and Sullivan. They have no axe to grind at all, and they put out periodic analyses—

Senator Cook: Mr. Chairman, I have one question before the witness goes on.

Is it your position that when the previous witnesses made the statement that they charge the same price for the same advertising time to advertisers whether they are Canadian or American, local or national, they are or are not telling the truth?

Mr. Znaimer: As it turns out, they are not telling the truth. In fact, they charge less in the United States than they do in Canada.

Senator Cook: So you are saying they are not telling the truth.

Mr. Znaimer: That is right.

Senator Davey: Go ahead, Mr. Znaimer.

Mr. Znaimer: I would like to read from page 7 of this study—

The Chairman: Just a moment, Mr. Znaimer. The committee will have no opportunity to cross-examine on this document, whatever it is. Why should we waste time on it?

Senator Cook: I agree.

Senator Davey: In fairness to the witness—

Mr. Znaimer: I would like to read from it, if I may.

Senator Davey: Mr. Chairman, in fairness to this witness, his name has been defamed in the combined brief of the Buffalo stations, and I think we should give him the opportunity of at least giving us his side of the story.

Senator Cook: He has now defamed the other people by saying they are not telling the truth. It is six of one and a half dozen of the other.

The Chairman: Everything contained in a brief, Senator Davey, is not necessarily relevant.

Mr. Znaimer: What I have here, insofar as it interests you, is an impartial analysis by an American brokerage firm which confirms, first of all, that price-cutting is taking place on the Canadian side of the border and, secondly, that there are separate price structures on the American and Canadian sides of the border. There are examples. Insofar as you want them, I will read them into the record. If you do not, I won't.

The Chairman: I do not see any value in it.

Senator Davey: In any event, Mr. Chairman, I would like to see them. I do not think we need read them into the record.

I have three other questions, Mr. Chairman. I would like Mr. Znaimer, if he could, to comment on the "Dawson Creek" problem, if I can put it that way; that is, if Bill C-58 is passed, it will work a hardship on the small television and radio stations in Canada outside of Toronto.

Mr. Znaimer: I have a general answer and a specific answer. The general answer is that that argument has been with us for 15 years. Any time an extension of service was proposed, CTV would make that point; any time someone wanted to licence a new station, someone else would make that point.

The point, simply, is that those smaller market stations, the tertiary, the fourth order, the fifth order market stations, have always had difficulties. As a matter of fact, I put it to you the situation would be the reverse. The smaller market stations in the CTV chain are cross-subsidized by the major stations from the major markets.

If you want to pursue this line, the smaller stations are damaged initially by the fact that they broadcast in unviable marketplaces—

The Chairman: Mr. Znaimer, the Institute of Canadian Advertisers, which prepares a list of various outlets that will be invited to tender on programming, appeared before the committee, and their evidence was that they would have to reduce that list by the deletion of many of the smaller stations. The Institute of Canadian Advertisers represents about 95 per cent of the advertisers.

Mr. Znaimer: They have also admitted, Mr. Chairman, that inflation does the same kind of thing; that these markets were not viable to begin with. Moreover, the CAB, which represents all these stations, and which has come out strongly in support of this bill, did not have one

dissenting vote in that position until yesterday, when a number of letters surfaced from five small market stations, each of whom is represented by a rep house that does its majority business with an American broadcasting station.

Senator Cook: What is a "rep house"?

Mr. Znaimer: It is an organization that functions as a commission salesman.

The Chairman: I just want you to know that we have had other opinions on this point.

Mr. Znaimer: Yes.

Senator Davey: Would you repeat what you just said, Mr. Znaimer? I have received these letters from the small stations, as have all honourable senators. I didn't quite understand what you said.

Mr. Znaimer: Well, I heard about these things and I noticed a pattern. The letters from the English language stations came from stations that are represented by a rep firm called Unicom, whose prime customer is WGR television. A substantial portion of Unicom's income is derived from WGR Television.

Senator Davey: Doesn't Unicom represent KVOS?

Mr. Znaimer: No, KVOS is represented by Metrospot Sales, which represents the two French stations that have suddenly decided to oppose the position taken by the CAB. Metrospot Sales represents KVOS, \$5 million worth of sales, WKBW, \$4 million worth of sales, and incidentally these two French stations. All I am saying is that there is an obvious axe that is being ground.

Mr. Jrafstein: The other side of that equation, dealing with the question of Canadian talent, is that if more dollars are pumped into the system, \$20 million or any proportion of that, be it \$200,000, \$400,000, or \$600,000, pumped back into the system, or repatriated, in the words of Mr. Beuth—which assumes the proposition that in fact it was appropriated by the Buffalo broadcasters, and all that Madame Sauvé is doing is trying to repatriate 100 per cent of it—if all or any part of that comes back, that will allow CITV-TV, as it has other stations, to produce Canadian programs, which will allow the smaller market stations that cannot afford the luxury or the effectiveness of producing programs in Newfoundland and other provinces, to purchase more good Canadian programs at a cheaper price, so a station sitting in Newfoundland is then put in a position where all of a sudden it has a program that is produced in Vancouver by the Vancouver station, and is able to buy that as opposed to having to go and spend those dollars down in the United States.

The Chairman: Except their audience may be such that they cannot afford that kind of program.

Mr. Jrafstein: My point is that if in fact you produce a Canadian program and it does not have a market because it is not competitive with the United States programs, Canadian stations will buy that program at a cheaper price rather than producing it themselves in order to fulfil their Canadian content. What we will end up with in this country is providing a market for Canadian programs amongst Canadian stations, which I think is a very direct benefit to Canadian talent.

Senator Davey: Notwithstanding the fact that Mr. Jrafstein disallowed my friendship this morning—

Mr. Jrafstein: Not your friendship; your philosophy.

Senator Davey: As a prominent counsel operative in the broadcasting field generally, and as one of the founding fathers of CITY Television, have you participated in the discussions referred to this morning by the Buffalo stations, apparently between the border stations and CRTC? Clearly the Canadian stations would have a great interest in these discussions. Did you participate?

Mr. Jrafstein: No, sir.

Senator Davey: Did you throw any light on those discussions?

Mr. Jrafstein: No, sir, we never participated; we have never been asked to participate; we have never been approached by Buffalo stations to get involved in those discussions, to my knowledge.

Mr. Znaimer: Or by CRTC.

Mr. Jrafstein: Or by CRTC. My understanding of the problem that arose earlier this morning in connection with the CRTC's position, however, is very simple. Back in 1970 the CRTC, after it had done its first phase of repatriation, which was repatriating the Canadian stations from American ownership, control and direction, then directed its attention to Canadian content and to the problem of fragmentation because of American signals into this market by cable, and the idea of commercial deletion generated out of those discussions. That did not happen yesterday. This has been an on-going fulsome public debate at CRTC hearings right across the country since 1970-71.

The Chairman: It is still active.

Mr. Jrafstein: It is and it is not. Right now we have a regulation passed by the CRTC approving that particular philosophy. There were a number of policy hearings. The American broadcasters were given a great opportunity to make presentations. I think they participated, directly or indirectly, in those public hearings. I certainly participated in those public hearings in a fashion. After due deliberation the commission came to the decision that commercial deletion was one way to handle this particular problem. It was not Bill C-58. The Bill C-58 proposition, as you know, goes back to the 'sixties, to the O'Leary Commission, the Davey Commission, the CRTC, the government. That particular solution has been with us for a decade. All we are dealing with is something that has been pretty well defined for close to ten years.

The commercial deletion question, however, was a more recent advent, in the last four or five years, and there was adequate opportunity for American broadcasters, Canadian broadcasters, the public and advertisers to come and participate. After extensive hearings, after literally hours and hours of public time, the commission came to a conclusion. They came up with a policy statement. After the policy statement, they then transformed that into a regulation, which then went through another series of hearings. So, we had hearings on regulations, and reacting to the regulations, and then finally a gazetted regulation dealing with commercial deletion. I really think that issue has probably taken more commission time than any other single issue I can recall.

My understanding of the proposition now is that the commission, having gone through that public process at due length, right across the country, passes the regulation

and the American broadcasters come forth and say, "Hey, we have not had a chance to discuss this."

In my view, that is factually not correct. They have had ample opportunity, more ample opportunity for due process, as I understand it in American terms, than any other issue before the Canadian broadcasting system. Then what happens, as I understand it, is that representations are then made to the CRTC. They say, "Okay, if you want, I guess we will discuss commercial deletion all over again." That was the preamble to the January 18 meeting. At that particular time, as I understand it, the American broadcasters said, "Oh, wait a second. As a condition precedent to discussing that issue, we want to add in Bill C-58." Now, that condition precedent was never accepted by the CRTC. They are still prepared to discuss commercial deletion.

The Chairman: Mr. Jrafstein, it is interesting that you are giving them credit for being persistent.

Mr. Jrafstein: Americans are very tenacious people.

The Chairman: How about you?

Senator Laird: I know of some Canadians who are too.

Mr. Jrafstein: My problem, senator, as a lawyer watching this, is to admire them. I have a great admiration for Americans. I would just like to see Canadians being equally persistent in their viewpoint.

The Chairman: I would say to be persistent or to be tenacious, as a lawyer, is a good thing, but there should be a mixture of democracy in there.

Mr. Jrafstein: I agree with that. I thought the point being made this morning, which I strenuously object to, is there was not due process by Canadians for an American grievance, and that somehow this was dumped on them and they have not had an opportunity. Honourable senators, they have had more opportunity to involve themselves in a public debate on this issue—the commercial deletion question—than any other issue. That is my point, senator.

The Chairman: It looks as though we have run the gamut on this particular hearing. We are resuming at 2.30 p.m.

We have two briefs this afternoon. We have appearing before us this afternoon: KVOS-TV (B.C.) Limited, Vancouver; and the Advertising Agency Association of British Columbia. We will start at 2:30 and hopefully we will finish before dinner-time arrives.

Mr. Jrafstein: We would like to thank all of you for your indulgence.

The committee adjourned.

The Committee resumed at 2.30 p.m.

The Chairman: I call the meeting to order. We shall proceed first with KVOS-TV (B.C.) Limited. We have with us Mr. David Mintz and Mr. Royce Frith.

On my immediate right is Mr. Royce Frith, Q.C., counsel, and next to him is Mr. David Mintz, the president. The opening statement will be given by Mr. Frith.

Mr. Royce Frith, Q.C., Counsel, KVOS-TV (B.C.) Limited: Thank you, Mr. Chairman. I am a lawyer, in Toronto

and Ottawa. KVOS-TV (B.C.) Limited has been my client for more than 10 years. Mr. Mintz, its chief executive officer, has been a close friend for about 15 years. So I am very glad to be here to introduce to you such a good corporate and personal friend.

Mr. Mintz has been with KVOS since 1952, about a year before the station went on the air, for a total of about 25 years.

We propose to go through with you the presentation we have filed. We will be happy and eager to answer questions, or we will answer questions at the end of our presentation.

Senator Haig: Where is KVOS situated?

Mr. Frith: KVOS (B.C.) Limited is situated in Vancouver. KVOS Incorporated is situated in Bellingham, Washington—that is, the State of Washington. The Canadian company, KVOS-TV (B.C.) Limited, sells all the Canadian time of KVOS in Canada. The station itself, the studios for the station, are in Bellingham; and the transmitter is north of Bellingham and close to Vancouver.

Senator Haig: You are still a U.S. station?

Mr. Frith: Yes, quite so. We will explain the relationship between the sales organization and the station as we go through.

Senator Haig: I am sorry I interrupted.

Mr. Frith: Not at all. Please interrupt at any time. I wonder if honourable senators have this particular document, the presentation? Honourable senators will see on the first page, inside the first leaf—this is not the fact sheets. I would like to be sure that everyone has a copy of what I shall be referring to.

Senator Macnaughton: We have the letter from Mr. Mintz.

Mr. Frith: That was a series of sheets on background information relating to the broadcasting side of the bill. It was in the nature of a brief. We felt that for today it would be better to have a verbal presentation to put forward organized on scattered subjects.

Senator Macnaughton: We must have it. It is merely a matter of choosing our documents.

Mr. Frith: If honourable senators will look at the first page inside, the topics we will be dealing with together are three. First is the background and growth of television in Canada. A good deal of this information has been furnished in a random way. We thought we might try to bring it together under the subheadings of "General History" and "KVOS and Vancouver". We will then divide the concerns with Bill C-58 into "Media Problems" and the "Question of Canada-United States Relations"; then what we propose or suggest to the committee.

I will now start on page 1: Background—Growth of Television in Canada—General History.

Shortly after television started in Canada, in the early fifties when only the CBC had stations, Canadian viewers in several markets close to the U.S. border found that they could receive television from United States television stations—in particular in Vancouver and Toronto. Gradually other Canadian cities such as Winnipeg and Montreal found that they could receive U.S. television from their rooftop antennas.

Over the ensuing quarter century, cable television began to be built in these cities and others. It served to improve the signals of these U.S. stations, in some cases to bring in stations that would not otherwise be available, and also to improve the picture of Canadian stations. In many markets, United States stations built up significant audiences. They provided an alternative advertising outlet for Canadian advertisers wishing to reach Canadian viewers.

In the meantime, the Canadian broadcasting service was being expanded by way of a second network—CTV, and as a next phase, some independent stations, for example CHCH in Hamilton; and finally a third network, the Global network, and other independents, for example, City TV in Toronto.

Canadians were then in the luxury position of, in many areas, having a great many viewing choices by way of the CBC, CTV, independent stations, Global, and in many cases all three U.S. networks, plus educational channels from both Canadian and U.S. sources.

Canadians seem to enjoy these choices and watch the U.S. stations in sufficient numbers to continue to attract advertising dollars from Canadian advertisers wishing to reach their fellow Canadian consumers.

With respect to KVOS in Vancouver, I will ask Mr. Mintz, who is more familiar with it, to go through that branch of the opening subject with us.

Mr. David Mintz, President, KVOS-TV (B.C.) Limited, Vancouver: KVOS went on the air in 1953. We had a small, low power homemade transmitter located on a low hill within the city limits of Bellingham, Washington.

Senator Haig: How far is that from Vancouver?

Mr. Mintz: It is about 75 to 80 miles from Vancouver. The original transmitter was put on the air at very low power. We had our own engineer build it. It was homemade, and it was within the city limits of Bellingham on a small hill. Its purpose was to be an adjunct to KVOS Radio, which had been in existence since 1928. We were out to prove to the world that small-market television would work. But we made a rather naive business judgment. What we did not realize was that the U.S. national advertisers, in purchasing their Seattle signals that covered Bellingham, Washington, could get Bellingham free. Therefore, there was no need for the national U.S. advertisers to buy Bellingham. As a result, we were very rapidly heading towards bankruptcy.

During the first two years of our operation, various advertising agencies from Vancouver came to Bellingham to ask if KVOS would move its tower to a point where a clear signal could be thrown into Vancouver. They said there was an advertising need to be fulfilled since the only then existing Vancouver station was the CBC, and it was not completely commercially oriented. One of the men, by the way, who made that request of us was Mr. Bellman who is now a major shareholder of Western Approaches. Mr. Bellman appeared before the committee at an earlier hearing. At that time he represented the James Lovick Advertising Agency of Vancouver. He asked us to make this move because the Lovick Agency had some accounts that wanted to place their business with us.

The move was made to a new transmitter site in 1955. As one of the original officers of KVOS, speaking from first-hand information, I can tell you that a meeting was held early in that year with the object of ascertaining how

KVOS should operate in Canada as a United States broadcaster. Advice was sought in British Columbia with advertising agencies, attorneys, bankers, and various Canadian business and professional people. The question we asked at that meeting, and subsequent meetings, was: "What affirmative actions should Canada expect from a United States station doing business in Canada?"

From that meeting, and subsequent meetings through the years, the following actions have been taken: 1) In 1955 KVOS incorporated in Canada. The Canadian tax department set up a tax base roughly as the counterpart of the tax base already in existence at Canadian radio station CKLW, which was transmitting to, and selling in, the Detroit market from Windsor, Ontario. KVOS-TV (BC) Limited has paid Canadian taxes on every penny of advertising placed from any Canadian source since that date in mid-1955.

2) Canadian citizens and residents of Canada were employed in our Canadian operation, and have been since 1955. In fact, one of the questions we were asked by the committee of the House of Commons was the number of people we employed the previous year. The data we have indicates that in the year 1974, in terms of full-time, freelance and part-time people, we had 173 people employed in our Canadian operations.

3) We set up a systematic program to re-invest substantial amounts of our profit back into British Columbia.

4) In 1961 a management meeting on where we stood as Canadian corporate citizens focused on the fact that Canadian regulatory bodies were pushing Canadian-based stations to do more and more Canadian content programming. We realized as one station we could not produce programs that would be viewed in opposition to the CBC and CTV programming. We could not produce such programs in Canada with our operating base, our transmitter and our programming source in Bellingham, Washington. The CBC and the CTV could spread the cost of their more expensive programs over their total number of stations. Therefore, back in 1961 we decided on an alternate voluntary course of action to attempt to fulfill our obligation to produce Canadian material and promote Canadian production skills.

Over the years, we have built Western Canada's largest full-line animation and film production company, Canawest Films in Vancouver, Canawest-Master Films in Alberta. This is our alternate contribution to make up for the reality that it was, and is, economically impossible for us, in our particular case, to proceed in the same manner as Canadian-based stations in fulfilling our obligation for Canadian content programming.

The interesting point is that over the years, KVOS-TV (BC) Limited, through Canawest, has hired more Canadian animators, artists, writers, directors, producers, film technicians, and the like, than any other English language independent station outside of Toronto and, possibly, Montreal. We have left with Mr. Jackson, and I see he has now distributed them, some books on Canawest. These books are made up of newspaper articles that have been printed in our area about the companies.

5) Finally, in the 10 years from 1965 through the end of 1975, KVOS-TV (BC) Limited, its film production companies and the other companies made possible by our reinvestment of profits into British Columbia, has put into British Columbia, in terms of taxes, payroll, capital expenditures, operating expenses, and otherwise—and the

backup accounting figures are in the blue and red books which we have left with Mr. Jackson)—\$75,862,431.

Mr. Frith: Mr. Chairman, honourable senators, I think we might now turn to Bill C-58, recapping some of its background. It grew from two sources, and I am speaking now of the broadcasting side. It grew first from a recommendation of the Senate Report on Mass Media. As far as I know, that was the first time that the recommendation was made to add the principle in then section 12(a) to broadcasting. Secondly, as part of a three-pronged CRTC policy dated July, 1971, which also involved the policy of stripping commercials on U.S. stations carried on Canadian cable systems, and head-to-head program substitutions.

A study of the substantial material on the subject, including speeches in the House of Commons, makes it difficult to be sure whether the essential objective is protection of Canadian culture, the protection and encouragement of Canadian publishers or broadcasters, or both. In any event, insofar as the broadcasting side is concerned, the primary objective appears to be to persuade Canadian advertisers to stop advertising on U.S. border stations viewed by Canadians, and to place their advertising money on Canadian stations instead.

Mr. Mintz: You have already heard and, we believe, will hear from the Canadian business and advertising community as to why they believe the bill will not produce the intended results. We can only say that our experience supports the following submissions made to this committee:

1. That advertisers pay money for audiences delivered at an efficient cost, not for television signals only, and that a tax bill will not affect audiences;

2. That the bill, essentially, can only help larger and already prosperous Canadian stations in major markets and will not help the smaller market Canadian stations. In fact, in many instances, it will hurt them.

It will not help the Canadian businessmen who utilize television to sell their products to Canadians.

And—a point that has not been brought out by anyone prior to this is that it will not help the independent television production companies in Canada, who are every bit as much a part of the industry as the Canadian licensed broadcast stations.

The views expressed to you by these Canadian businessmen are supported by other Canadians working in this field. I would like to quote two of them. In an article that appeared in *Canadian Marketing Magazine* in January of 1976, George Murray, vice-president and director of media of one of Toronto's largest advertising agencies, said:

TV for the advertiser in Canada is a scarce resource. A precious commodity. It is as essential to the marketing machinery of many advertisers as energy to run the plant and money to pay the sales force. If your brand can't get TV in the top three markets, let alone the top 10, you may be just about as good as out of business... or at least forced to operate at a far reduced share of market. You may be happy to know that for those advertisers who can afford to pay the price, and who can plan far enough in advance, Canadian private broadcasting will indeed, more than ever, become the backbone of their media plans. On the other hand, advertisers who cannot afford to pay the price, or who cannot or will not plan far enough in advance, may find themselves locked out. While it may

be reassuring to know that the private Canadian TV stations will be able to deliver your market, however specialized your target audience, it isn't necessarily so comforting to realize that they will also be in the same position with the commercial television commodity as the Arabs are with oil.

Referring to the escalating cost of television time in the major markets, in a speech before the British Columbia Association of Broadcasters in March of this year, Jack Crowin, president of J. Walter Thompson in Toronto, said that increased cost of availabilities would have the following results:

Market lists will be reduced and advertisers will pull out of smaller and medium-size station markets. And smaller advertisers will abandon TV altogether in favour of other more affordable media.

Copies of these remarks are included with this text.

Mr. Frith: Mr. Chairman and honourable senators, perhaps we could turn now to another aspect, and that is Canada-U.S. relations.

We have read the proceedings and debates in the Senate chamber and note that some honourable senators show concern for the role of Bill C-58 in the larger problem of the total Canadian-United States broadcasting question and, in turn, overall Canada-U.S. relations.

There are many aspects to the Canadian-U.S. border broadcasting question, for example:

... the CRTC dictum on the stripping of commercials on U.S. stations carried on Canadian cable systems, what is sometimes referred to as the deletion and replacement policy;

... the CRTC dictum on program substitution;

... the competitive effect of telecasting from the new CN Tower;

... the pre-release of U.S. network programs in Canada;

... the fact that U.S. stations profiting from Canada do not participate in the preparation of Canadian content programs;

... the Canadian broadcast network and station need for inexpensive U.S. produced programs in order to generate audience and revenue;

... the need for U.S. signals by Canadian cable systems in order to stay in business.

These are some of the examples or dimensions of the Canada-U.S. broadcasting problem, not necessarily all-inclusive.

On a larger scale Canada-U.S. relations can be viewed in the context of international agreements and practices affecting U.S.-Canadian trade as a whole. Specific concerns have been expressed in this regard by parliamentarians in both the United States and Canada.

For example, the General Agreement on Tariffs and Trade is relevant to the broadcasting portion of Bill C-58. Publishing is indigenous to Canada in that printing, editing, circulation, and other elements occur all within Canadian borders. Broadcasting is different. It is an imported service from the United States into Canada, that is, Bellingham into Vancouver, as an example, Buffalo into Toronto, and is an exported service from Windsor to Detroit and, as of May 31 of this year, via the CN Tower from Toronto into Buffalo and New York State.

Representations have been made from the Chairman of the United States Senate Commerce Committee, Senator Magnuson, to Secretary of State Henry Kissinger, concerning border television and GATT treaties signed by Canada and the United States. A copy of Senator Magnuson's letter to Mr. Kissinger is attached to this brief. The GATT question ties in with a United States law entitled "The Trade Reform Act of 1974."

I think it is important to underline that we draw these aspects of the question to your attention simply because of the concern already expressed by honourable senators as to the role of Bill C-58 in Canada-U.S. relations, and because, so far as we have been able to determine, these dimensions have not yet been raised as a part of your study of the bill.

The only references to the diplomatic dimension of the problem we have been able to find is a suggestion made to this committee that the United States Government did not appear to be concerned with Bill C-58. This also was mentioned in the Senate chamber. It is our understanding that in fact the United States Government is concerned with the implementation of Bill C-58, and does consider it to be an integral part of the total United States-Canadian border broadcasting problem. That understanding has now, it seems, been confirmed by the documents that were filed by the chairman today.

That brings us to our proposals to you.

Mr. Mintz: We wish to record our support for the proposals expressed by many honourable senators and others that Bill C-58 be negotiated as a part of the total border broadcasting problem.

For many years KVOS has sought ways to make positive contributions to the solution of these questions including—and we include this so that you will know we have not started seeking ways to help solve this problem now, with this bill on the horizon—a specific proposal made five years ago to establish and contribute money to the maintenance of a West Coast Film Production Fund for the purpose of producing Canadian content programming. Again, the blue and red book in which the figures appear has a draft of that proposal, which five years ago was given to the CRTC.

In summary, honourable senators, we believe there are two basic reasons why the television part of Bill C-58 should be carefully analyzed and perhaps restructured.

1. It will not work to effectively achieve desired results.

2. There are better ways to meet the problem.

Mr. Frith: Negotiations are now under way to attempt to find a compromise solution at the negotiating table to solve the entire border television problem, including Bill C-58, cable deletion and any other problem which either the U.S. or Canada sees fit to bring up. The first meeting between the United States State Department and the Federal Communications Commission with Canadian External Affairs and the CRTC occurred in early January of this year. At that meeting border stations were told to get back to the CRTC with a suggested compromise proposal. Such a proposal was presented at a meeting held March 18, and the draft of the compromise solution took into account the total television problem including Bill C-58. Both Mr. Mintz and I were present at that meeting.

Our understanding was that the CRTC would analyze the proposal, send it along to External Affairs and other interested Canadian federal agencies. Then a third meeting

would be held between External Affairs and the United States State Department in Washington.

In case there is any ambiguity, I do not mean a third meeting between the two governments, I mean a third meeting in the series, because up to that time there was only one meeting between the two governments.

Senator Walker: That was the one in January?

Mr. Frith: That is correct, Senator Walker.

We have been advised that further communications have been going on between the U.S. State Department and External Affairs indicating the United States Government's deep concern about the implementation of Bill C-58. We understand also that a request has been made to set an early date for the next negotiating session between Canada and the United States. Bill C-58 is just a small segment of the total television problem. It very well might be counter-productive to a total settlement to deal with this element only at least until an attempt has been made to deal with the total problem.

The interdependence of trade issues is illustrated by a submission made to this committee by the Council of Forest Industries of British Columbia. The comment we are making here has nothing to do with broadcasting. It is just on the interdependence of trade issues between the two countries.

In a letter to the chairman dated April 21, 1976, the Council expressed its concern about:

... the mood of confrontation between the U.S. and Canada which appears to have developed over Bill C-58, and the concomitant possibility of retaliatory action. This is not to suggest that an outright negative move from the American government is pending, but rather that our country might not be accorded the status normally enjoyed by friendly neighbours.

We have expressed our concerns previously to the federal government, both in Ottawa and when Cabinet ministers have visited Vancouver. The provincial government in B.C. is also aware of our concerns.

We urge you in your deliberation on Bill C-58 to explore every possible avenue for negotiation of the issues, rather than allowing confrontation to take place.

We have our file letter attached to this.

We respectfully suggest to the committee that the broadcasting portion of Bill C-58 ought not to be proclaimed until complete and sincere negotiations between the United States and Canada are completed in order to produce a compromise solution that is good for Canada and all parties concerned.

Thank you, Mr. Chairman.

Senator Walker: Just before you leave, Mr. Frith, I hear that we should get this bill through and we could then play for strength with the United States. You do not think that at all, do you?

Mr. Frith: I do not think so, senator. It is a negotiating technique but, personally, I have never found it worked very well.

Senator Walker: I have great respect for your judgment in these matters. Could you give me a few details as to why not?

Mr. Frith: Partly I think, Senator Walker, because at that point you have removed something from the negotiation list. You then come to the negotiating table on the basis of having removed something from the list of negotiations that happens to suit you.

Senator Walker: You have taken it into your own hands.

Mr. Frith: You and I have often had to settle lawsuits—

Senator Walker: That is right.

Mr. Frith: —and if I came into your office and told you there was something not negotiable, I do not think we ever got very far.

Senator Walker: If you are as good with them as you were with me, you will be very successful.

Mr. Frith: Don't believe that, honourable senators!

I think that is the principal reason, because I believe it indicates a lack of willingness to try to negotiate all the issues in a package, rather than nibbling one off that suits the parties.

Senator Haig: Mr. Chairman, KVOS-TV (B.C.) has production firms, Canawest Film Production, Vancouver and Canawest Master Films, Calgary. To whom do you sell your productions?

Mr. Mintz: We sell them throughout Canada and throughout the United States. We have some major documentary projects, such as Boise Cascade, a company from Idaho. What that means is that we are bringing money from the United States into Canada because we are sending Canadian crews out on these documentaries, both throughout the world and back into the United States.

Senator Haig: Do you sell any to Canada?

Mr. Mintz: Yes, both Eastern Canada and Western Canada. Our main sources of selling are to the markets of Vancouver, Calgary and Seattle.

The Chairman: How long has that been going on?

Mr. Mintz: Since 1961.

The Chairman: What are the dollars involved?

Mr. Mintz: We average, between those two companies, about \$1 million a year. It is a subsidized operation. On the books last year, out of that approximate \$1 million, we made \$16,000. I am not sure whether we made it or lost it or what, but that is what the books showed.

Senator Cook: Out of that \$1 million, how much is paid to Canadian artists?

Mr. Mintz: All of that.

Senator Austin: You are saying, Mr. Mintz, that if this bill is passed and Part 3 is proclaimed, you would have to suspend the operations of Canawest?

Mr. Mintz: There would be no way we could continue it.

Senator Austin: That would cost how many jobs?

Mr. Mintz: It would be full-time, part-time and freelance jobs because in the production industry when you need a producer you go out and hire a producer, and when you need an actor, you go out and hire an actor. As I said, we

had in 1974 173 full-time, part-time and freelance people who were employed.

Senator Haig: Who owns KVOS-TV (B.C.)?

Mr. Mintz: KVOS Television Incorporated, which in turn is owned by a company on the New York Stock Exchange, Wometco Enterprises, Inc.

Senator Haig: It owns the Bellingham station also?

Mr. Mintz: Yes, it owns the Bellingham station, and the Bellingham station owns the stock of the Canadian office.

Senator Bell: Mr. Mintz, how many other comparable firms are there in Canada which operate in that way, comparable to Canawest?

Mr. Mintz: You mean how many independent production companies are there?

Senator Bell: Yes, similar ones.

Mr. Mintz: Similar ones—none in the West and maybe four or five in the East.

Senator Bell: Comparable, as far as production goes?

Mr. Mintz: Yes. I do not know of any in Canada that encompasses the full line of production work that we do, especially the animation side, except the National Film Board, as Mr. Frith says, which is not a private enterprise company. We have been very successful because of our proximity to Hollywood, in going down and "selling" people, who would ordinarily do work in California, to move and do the work in British Columbia. For example, last year we talked Twentieth Century Fox into doing two feature films in B.C. They brought one U.S. person up, the main star, and everyone else on the cast was Canadian.

We also, a couple of years back, on two occasions talked HANNA-BARBERA, the West Coast's largest animation company, into coming to B.C. and letting us handle sub-contracts on their work. The Canadian government helped us in the placement of people, Manpower scoured Canada from one end to the other to find animators and assistant animators. We could find a few; For the rest we had to set up training centres in British Columbia to train for these skills.

At that time, when we were doing this cartoon work, we had over 150 people employed in just that side of the business. Right now the animation is down, both in Canada and the U.S. They are not producing very much. We have no series work, but we still do a lot of animated documentaries and animated commercials.

The Chairman: I assume every senator understands what "animated" is.

Mr. Mintz: Those are the little cartoony characters.

Senator Laird: Walt Disney.

Mr. Mintz: I wish we were Walt Disney but not quite.

Senator Manning: Is KVOS-TV Ltd. a wholly-owned subsidiary, or is there public stock issued in Canada as well?

Mr. Mintz: It is a wholly-owned subsidiary. Back in 1972, when Mr. Frith and I went back to the CRTC with this offer of negotiating a portion of our gross to be used for the reduction of Canadian content programming, we

also offered at that time, as part of the arrangement, if the CRTC so desired to negotiate, to sell the majority of our stock of the Canadian company to Canadians.

Senator Manning: And that was not proceeded with?

Mr. Frith: It was not taken up; but we have not changed our minds.

Mr. Mintz: We made another offer. Toward the end of last year, when the new UHF station was going on the air. We offered to merge our Canadian company with the new UHF station, so they would not be in the position that CITY finds itself in, and our two companies would sell together in Canada. Even though we would probably have four times as much income than the new company, we would share the income 50-50 with the new company, and that would have been our contribution to the British Columbia scene.

Mr. Frith: Perhaps we should make it clear that we were not talking about merging the two stations in the sense of programming. The two stations would still be there, but the new station starting up, will have difficulty in getting an audience. We have no doubt that they will get the audience, and in fact when they do get the audience there will still be room for them and KVOS and eventually another station . . .

Senator Haig: What was your antenna contoured at . . .

Mr. Frith: May I just finish my point? We were not talking about merging the two stations. It was just that we would sell the time together so that someone who bought KVOS would automatically buy the Vancouver station. They would get the benefit in the beginning, of course, but eventually it would level out.

Senator Haig: What is the contouring of KVOS (B.C.) in Vancouver?

Mr. Mintz: It encompasses the lower mainland, which is Vancouver, and about 85 per cent of the population of British Columbia, going over to Vancouver Island and taking in Victoria, Nanaimo, and those areas. It is a kind of a quarter circle, starting from the border and going up around Vancouver Island and over Vancouver.

Senator Haig: It is directed north?

Mr. Mintz: No, it is not directed. All TV patterns are circular.

Senator Haig: I know that. I am telling you that you directed your antenna to the mainland of British Columbia and Victoria; is that right?

Mr. Mintz: No.

Senator Haig: Because you have a Seattle station . . .

Senator Walker: You are talking to a great and important director.

Mr. Frith: No. I think it is just a matter of the verb. As you know, with radio you do not have it on a directional tower. You contour it this way. This is omni-directional. As Mr. Mintz has said, we moved our antenna up at the request of advertisers some 20 years ago, so that it would reach them. We did not direct it, but we moved it . . .

Senator Haig: Your contour covers . . .

Mr. Mintz: Vancouver.

Senator Haig: That is all I wanted to know.

Mr. Frith: I am sorry to be so touchy on the direction issue, but it wasn't a matter of switching the direction.

Senator Haig: But when you produced your antenna, you directed it to Vancouver, Victoria and Nanimo—not south.

Mr. Mintz: It goes the same distance south as it does north.

Senator Haig: On any contour?

Mr. Mintz: Yes.

Mr. Frith: I understand your point, senator. When, after the first two years of operation we moved the antenna, the intention of moving the antenna after those two years of operation was to reach that market. I think that is what you want to get at. We are not trying to quibble with you.

Senator Walker: Have you finished your brief? There is something important on page 15. I am very interested in the general submission. Let us do this thing properly and not crowd the American government by passing this legislation and then going to the American government and saying, "This is through already. What are you going to do?" You say here:

We respectfully suggest to the committee that the broadcasting portion of Bill C-58 ought not go be proclaimed until complete and sincere negotiations between the United States and Canada is completed . . .

That is your big submission today, is it not?

Mr. Frith: That is our suggestion.

Senator Walker: You feel that if it goes through it will do the whole industry a lot of harm later on.

Mr. Frith: That is our opinion, from our experience.

Senator Walker: Because the Americans will try to counter this and retaliate.

Mr. Frith: In effect, it is an overall problem. It is a two-way problem. It is true that at the moment, on balance, at the present time, the American border stations create more problems for the Canadian system than the Canadians create for the American system. We have to be honest about that. However, it is not all that way, and in the future, with the CN tower and so on—we do not know how it will operate or what will be the effect on pay-TV and so on. Our overall suggestion is that this really is a small part of a big problem. The broadcasting problem is part of overall trade relations, and generally speaking it seems that our history has been, as neighbours, to try to negotiate this problem not only as a whole but on an ongoing basis.

Senator Walker: And you have been able to do that so far.

Mr. Frith: Yes.

Senator Macnaughton: Senator Walker has posed the same question that I wanted to ask. On page 15 you say:

We urge you in your deliberation on Bill C-58 to explore every possible avenue for negotiation of the issues. . . .

I know that Mr. Mintz has a very capable attorney to his left. What steps have you taken to urge negotiation of this problem? As past chairman of the Canada-U.S. interparliamentary group, this is a source of discord at every meeting, and has been so for several years.

Mr. Frith: For the record, the quote you are making is not from us; it is from Council of Forest Industries of B.C.

Senator Macnaughton: Yes.

Mr. Frith: The steps that we have taken have been to urge this in every forum and to every ear that we could address. We have made representations to the CRTC over the years. We have made representations to the broadcast committee every time we had a chance on this side of the border. On the other side of the border we have certainly raised the question with our own representatives—that is, the representatives in the state of Washington—and we have raised the question with the State Department in the United States. I must say, in fairness, that at first we did not get very far on either side. We still do not think we have got too far on this side. But we now have this letter. I am not suggesting that we brought it about . . .

Senator Macnaughton: At last you are keeping up the pressure.

Senator Haig: Does the deletion of commercials on U.S. programs affect you in KVOS-TV (B.C.)?

Mr. Mintz: They are not deleting in Vancouver at the present time. Only one segment of Toronto plus Calgary and Edmonton. Deletion on us in B.C. would put us out of business. Deletion of our commercials on Canadian cable systems would cause us to go black.

Senator Walker: You mean go red.

Mr. Frith: It is the difference between the viewers' point of view and the accountants' point of view—or the shareholders' point of view.

Senator Walker: Do you feel you have a quid pro quo with which to go to them? If this was set aside for the time being, would you be in a better position to negotiate?

Mr. Mintz: I want to answer one other thing . . .

Senator Walker: Do so, and direct your mind to what the problem is in our minds.

Mr. Mintz: Apart from all the other reasons that you gave for negotiations, there is one very positive one, and that is that I firmly believe we can come up with a solution that is better for all parties, including Canada, a positive solution that is better than the negative aspects of Bill C-58. I know we can. I wish we were in a position to explore some of the points we made in the proposal.

I can say that one of the items in the proposal was that we are willing to negotiate anything. It is wide open. If the Canadian negotiating team feels there is something that should be thrown into the negotiations that we have not thought of, then we are quite willing to have it placed on the table for discussion and solution.

Up to this time, there has not been that type of open exchange looking towards a positive solution. If we were to enter into such an exchange in an open, positive fashion, then something good could come of it, instead of something negative.

Mr. Frith: To say the same thing in another way, if the objective of Bill C-58 is to divert funds to Canadian production, we, in our experience, do not think that it will be accomplished, because funds follow viewers. I cannot imagine anybody sitting in their homes looking at television and saying, "Oh, I heard they passed a tax bill. I am not going to watch that television station." We do not think the bill will produce that result.

As evidenced by our five or six years' efforts, we are prepared to make a contribution directly to the objective of this bill. The objective of the bill is to put money into the Canadian broadcast system. We are endeavouring to come up with a proposal as to how we can do so. Two such proposals which have been presented were to put a percentage of our gross, in the amount of millions, directly into a West Coast film production fund to produce programming on the West Coast and to try to get money into the television station that you heard about from Mr. Bellman. They are very talented people, but they are going to need money to produce programs. It is our view that we can arrive at an arrangement whereby some of our money will go directly into producing that.

The reason for directing a percentage of our gross into film production on the West Coast is that it is the British Columbian people who have been such good hosts to us over the years.

Those two proposals are just an example of the type of positive solution we are trying to arrive at, because not only do we think Bill C-58 is negative, but we do not think it will work.

Senator Cook: You have given us a general history since the early fifties. Can you give the committee any prior instances where either the Government of the United States or the Canadian government acted in this field without consultation one with the other?

Mr. Frith: I cannot think of any other instance in the broadcast field where that would have been the case.

Senator Cook: Have there been problems?

Mr. Frith: There have been problems, yes. In a way, the first time this problem ever came up, it was the reverse situation. It first came up over the fact that there was a Canadian station in Windsor that was the number one station in Detroit and, occasionally, the number one station in Cleveland. It was selling a lot of business in those markets. As a result, there were negotiations and they worked out a tax arrangements, which is the same as they did for KVO5. We pay taxes in Canada, too. Eventually, of course, the Canadian government said that they intended to insist that that station, which originally was owned by Americans, be owned by Canadians. It was finally bought by Canadians and was run as a Canadian organization selling in the United States.

That solution was a joint solution, in effect, of the Internal Revenue Service and the Department of National Revenue.

Senator Cook: That is one case. Dealing with the history of radio and television, have there been any other problems or sources of irritations between the two countries?

Mr. Frith: There have been some questions relating to the carriage of stations on cable, both ways.

Senator Cook: Have they been settled?

Mr. Frith: Yes.

Senator Cook: How?

Mr. Frith: In the case of Canada, Canada has, in effect, said it is going to limit the number of U.S. stations allowed in on cable. The FCC has always refused, although applications have been made, to knock off any of the Canadian stations from U.S. cable, as far as I am aware. So, that has been worked out, from the best I can judge, not being in on the negotiations, by some kind of balanced understanding between the Federal Communications Commission and the CRTC.

Senator Cook: And you think that this decision by the Canadian government was pursuant to negotiations between the two countries?

Mr. Frith: I believe there was some negotiation between the two agencies, the FCC and the CRTC. I know they talk with each other about a lot of things, and I assume that they talked to each other about that, too, although I was not in on those discussions.

Senator Cook: And you think there have been negotiations between the two governments dealing with this particular problem?

Mr. Frith: I believe there have been, Senator Cook.

Senator Macnaughton: I take it, Mr. Frith, you do not agree with the demand made this morning that this committee should quickly rubber-stamp this bill.

Mr. Frith: I think that is an understatement, Senator Macnaughton. I am representing a United States' client; it is not up to us to tell this committee what to do one way or the other. We have tried to put forward why we think that the whole problem would be solved more to the benefit of Canada and all parties if serious and sincere negotiations were allowed to proceed towards a solution on an ongoing basis.

Senator Macnaughton: But the first step is the careful examination of the bill, surely.

Mr. Frith: That is certainly my opinion, senator.

Mr. Mintz: To elaborate further on the answer to the question put by Senator Cook on international negotiations, I might refer to a question that came up this morning on Tijuana. The suggestion was made that Tijuana broadcasters were forced off the air by the United States government. That is not a fact. Tijuana broadcasters are operating today. They are not out of business. They are still broadcasting to San Diego, carried on U.S. Cable systems in their entirety, with no tax or other inhibiting legislation. As Mr. Znaimer said this morning, the agreements between the U.S. and Mexico have been arrived at by negotiation and general agreement, not by unilateral action.

Senator Cook: I should imagine this will not be the last problem that will arise in this area between the United States and Canada.

Mr. Mintz: There will be satellite television to talk about, pay television to talk about, short-wave broadcasting to talk about. There will be all manner of things, and what is needed is some kind of ongoing mechanism between the two countries to work out problems such as this.

The Chairman: Mr. Mintz, you may not want to answer this question, but if and when the new station gets operating in Vancouver, do you think that in the scramble for audience there will be a price-cutting war?

Mr. Mintz: No, Mr. Chairman. In the past, the history of the Vancouver market has been that KVOS has been the price leader from year one. We have always led the way in prices.

Senator Cook: Up or down?

Mr. Mintz: Up. We have always led the way in prices. The interesting thing about Vancouver is that there are fewer television availabilities in Vancouver than in any other major market in North America. For instance, we have a CTV setup, BC-TV, which has two stations and sells as a single entity, CBC, which can only be counted for about a half station with commercial availabilities, and our station, which makes two and one-half. When the new station goes on the air, there will be three and one-half. Seattle, which is slightly smaller than the Vancouver-Victoria area, has three network stations and one independent, for a total of four. So, Seattle, which is 200 miles to the south of us has four stations on which to buy time and right now Vancouver only has two and one-half. That is why the Vancouver situation for Canadian advertisers trying to reach Canadians is always in such a "sold out" position.

Senator Haig: It is because of the rain in Vancouver!

Mr. Mintz: They stay inside.

Mr. Frith: Perhaps I could add something. This is rather important in considering this bill and its effects and the general discussion of the market. There are three expressions used, without discretion, if I may use that word. I do not mean indiscreet in the sense of indecent, but they should be discreet. One is the expression, "dumping", which I think was clarified by Senator Cook today; another is, "price cutting"; and the other is "price adjusting" to meet Bill C-58. They are all quite different. As Senator Cook pointed out, price cutting is not the same as dumping. If you sell for less abroad than you sell at home, that is dumping. If you sell at the same price at home as you do abroad, you may be cutting your price but it is not dumping.

As I think the chairman pointed out this morning in referring to it as a response to this bill, prices might be adjusted to meet the bill, but what that means is that the seller, the station, would reduce its price by 50 per cent, assuming that is roughly the corporate tax rate. That would make no difference to the customer. The customer is not getting a price cut at all, as I think the chairman pointed out this morning, because he will not be able to charge it off as an expense. So it ends up costing the same as if there were no bill.

I just add that in case we go on discussing responses, such as the one this morning, whether Buffalo would cut its rates. That is what would take place if it were in response to the bill, but it would not be cutting in order to make the rate cheaper. It would be reducing or adjusting the rate so that it ended up costing the advertiser the same, but not charged off as an income tax expense. Did that add any clarification or just muddy it?

Senator Davey: Has KVOS adjusted its price in anticipation of the passage of Bill C-58, or in anticipation of the new Vancouver television station at all?

Mr. Mintz: No, sir.

Senator Davey: There are no examples of that?

Mr. Mintz: No, sir.

Senator Davey: No examples of price cutting or price adjusting?

Mr. Mintz: No, sir.

Mr. Frith: I do not know whether this is what is behind the question. The question was whether we did it as a result of the new station or as a result of anticipation of the bill. If you are talking about any adjustments of rates in connection with summer rates and that sort of thing, I know you have been in the business long enough to know. However, I am sure that is not what you were talking about.

Senator Davey: I understand you have been selling a special package deal on the streets of Vancouver this spring. Perhaps I have been misinformed.

Senator Walker: On what basis?

Mr. Mintz: There is no special package deal.

Senator Davey: That is fine.

Senator Haig: The rate card adjusts itself to the season of the year and the time period in the day, does it not?

Mr. Frith: Yes, sir.

Senator Haig: That carries through the season; you seasonally adjust the rates.

Mr. Mintz: There is one thing I might point out. One of the things that came up this morning on pricing, from the representatives of CITY, was that prices could be held down in the major markets by the Prices Review Board. There are many ways to raise prices without raising prices.

Senator Haig: That is an Irish way to speak, but go ahead.

Mr. Mintz: You can make an advertiser put more money on your station by saying to him, "We are not going to give you the best times unless you allocate enough dollars to us to buy 52 weeks at a stretch. We cannot give you the best times unless you buy a host of fringe times on top of these good times."

Senator Haig: Renewals.

Mr. Mintz: Right. "We will not give you the best times if you don't promise to give us renewal within three months before you stop." All those things are being done at the present time.

Mr. Frith: By everybody.

Senator Davey: Extending the length of the contract?

Mr. Mintz: Yes, sir. I was in New York last week talking to some of the sales people down there. The United States national advertisers are used to buying in four- to six-week packages. They are finding it practically impossible to find time in Toronto because the majority of the stations there are virtually sold out on a 52-week basis.

Senator Austin: Mr. Mintz, you told us that you had very high percentage of the British Columbia television

market. Would you mind reminding me what percentage that is?

Mr. Mintz: In audience or dollars?

Senator Haig: On the Nielsen rating, say.

Senator Austin: First of all in audience and then in dollars.

Mr. Mintz: There are three Seattle stations and three Vancouver stations. Give or take an average during the day, we each get about one-sixth of the audience.

Senator Austin: And in dollars?

Mr. Mintz: In dollars I would say we have about one-third of the selective dollars.

Mr. Frith: You understand that the Seattle stations are not selling; they come in on cable and get the audience share.

Mr. Mintz: I know the CHAN-CHEK gross is 50 per cent again higher than ours.

Senator Austin: What proportion of the British Columbia television market do you cover with your signal?

Mr. Mintz: Populationwise about 85 per cent.

Senator Austin: What percentage of your revenues come from Canadian advertisers?

Mr. Mintz: Approximately 85 to 90 per cent.

Senator Austin: What you try to do, as I understand the material you have submitted to this committee and to me, is to put yourself in as close a position as you can as an operating station to the Canadian requirements, as you see them. You have tried to make a proposal which would nationalize you in Canada.

Mr. Mintz: Yes, sir.

Senator Austin: And give you a resident alien status?

Mr. Mintz: Amongst the things we have done, for example, are these. The Canadian Association of Broadcasters and the CRTC put out some regulations; the National Association of Broadcasters in the United States and the FCC put out other regulations. Whichever is the tougher of those two in any case is the one we follow. For example, for children's programming, United States stations, by the United States codes are able to put in 16 minutes of commercial time; Canadian stations, by the Canadian code, are allowed to put in only 8 minutes. We put in only 8 minutes. The Canadian stations in prime time, non-children, are able to put in 12 minutes commercial time; the United States says 10 minutes; we put in 10 minutes. We follow Canadian rules for Canadian advertisers on commercial copy. We follow Canadian election rules, which say things like, "You may not advertise politically within 48 hours of when the polls close." The United States rules say you can advertise right through election day even. We have been walking a tightrope for the past 20 years of always finding which is the rule we will not infringe on in the other country and then accepting that rule.

Senator Austin: What do you try to do with respect to the Canadian content requirements of the CRTC?

Mr. Mintz: That is where we have had to take an alternate voluntary route and go with the Canawest film pro-

ductions, which I left the booklet on. This was the only way we could figure we could do the same type of thing that the Canadian content rulings were after, but it had to be something as an alternate, because we could not do it exactly the same.

Senator Austin: I think you heard the evidence here this morning that Canadian content is a financial penalty to the Canadian television broadcasting system.

Mr. Mintz: And it certainly is. This is one of the things that I think could effect a compromise. For example, when you are in a judo fight and somebody throws a judo punch, or whatever it is called, at you, if you try to stop it point blank you both get hurt. If instead of trying to stop it, you follow through on the judo throw and utilize the impact of that, then you can come up with something that is positive.

Here is Buffalo that is making a profit. Here is Bellingham that is making a profit. Both of us, and the other border stations are willing to take some of those profits on a negotiated basis and utilize them in Canada to help meet Canadian broadcast objectives. We have not been able to find a forum to talk about the hows and whys and wherefores, until this committee today.

Senator Austin: I would like to ask you about that forum. Mr. Mintz, have you not sought meetings with the Minister of Communications or with senior officials in that department to discuss your proposals?

Mr. Frith: I think it is perhaps not right to say we have not had a forum. We have not got anywhere in the forum.

Senator Austin: You have had meetings?

Mr. Frith: Yes. As I said, we made this direct proposal for the West Coast film. We made that directly to the CRTC in 1971. I have certainly put the position of KVOS to the Minister of Communications, and the previous Minister of Communications. I did see Mr. Faulkner once, and we made the other proposal that we referred to in March.

I guess, to say we have not been able to get a forum, I think perhaps what Mr. Mintz means is that we have not been able to get into a situation—

Senator Austin: Negotiation position.

Mr. Frith: Yes. I think it is important you realize we are not saying that everyone slammed the door on us.

Senator Austin: You have had a hearing but they have not given you a positive response.

Mr. Frith: Or a feeling, as you said, of a willingness to negotiate.

Senator Austin: What answers did you get in these meetings from the people you met, in terms of your proposals which on the face of it have a reasonability about them?

Mr. Mintz: May I answer that, in all honesty?

Mr. Frith: That is the only way.

Mr. Mintz: When we made the initial proposal to the CRTC back in 1972, and virtually in every other proposal and conversation we have had, the answer came back to us, "You are an American entity and, therefore, we have no mandate to negotiate with you."

Senator Austin: What does "no mandate" mean; no legal authority?

Mr. Frith: Yes.

Senator Austin: We have a bill here, which is the proposal of the government and the ministers. They have the authority to include whatever legislative proposals they wish, to Parliament.

Mr. Frith: We never got that response from the minister and, I think, from the CRTC.

The Chairman: I think that maybe the governing bill relates to television in Canada.

Mr. Frith: Yes, that is true.

To clarify, Senator Austin is quite right. We were not told there was no constitutional authority to bring up what we were talking about, when I talked to either Mr. Pelletier or Madame Sauvé or Mr. Faulkner or anyone, and with the CRTC they listened and they said we will consider it. Usually the position ended up with them saying that we do not feel we really have any authority to deal with an American station.

Senator Haig: Mr. Chairman, luckily I do not live in Vancouver because my raincoat is rather worn. I understand or I have heard that Seattle stations do take commercial advertising on election day, in violation of the CRTC ruling. Is that correct?

Mr. Mintz: I do not know, senator. I know that we have an arrangement with the cable system, and virtually every election they call us up and they say we are blocking out the Seattle signals from the news programs so that no election results will come into British Columbia. They want to know if we are going to proceed as we have been doing for the past 20 years and not carry these news programs. We say "Yes" and they would carry our signal and block out the Seattle news to make sure that no news of any eastern election gets into the market.

Senator Haig: What about cigarette advertising?

Mr. Mintz: No cigarette advertising.

Senator Austin: I would like to ask a few more questions inasmuch as this area, both geographically and otherwise, is of special interest to me, Mr. Chairman.

Why is it that you believe the government and its officials have been unwilling to contemplate a negotiating status with the United States? Have you any satisfactory information that you can give us?

Am I right, first of all, in the assumption in that question? Has there been a refusal by the Canadian government officials to negotiate on this question?

Mr. Frith: No, it is not fair to say there was an outright refusal to negotiate because there was, in fact, that meeting referred to in January. My opinion, from the experience I have had, is that it is a mixed reason, senator. In the first place, the negotiating of the problem at a governmental level really first came to a head with the policy statement of the CRTC of July 1971. That was a policy as Mr. Jrafstein said today, which was arrived at as a result of a number of hearings, although the hearings were to deal with what they call the problem of cable and broadcasting. The proposal for deletion and replacement was first brought up at those hearings in Montreal.

Then, the policy arrived with the three things, program substitution, Bill C-58 which was a sort of a tacked on thing, although referred to at those hearings, and deletion and replacement. I believe the CRTC was going to try this policy on. I personally believe that they have some doubts now about that policy, doubts only in the sense that they have seen some implementation problems. However, for the first period, from 1971, they had established a policy and were quite understandably going to stick to it. When any Minister of Communications was asked about the subject, he referred to the CRTC and the CRTC said, "Let's give this policy a chance."

Frankly, I really believe that the whole policy of 1971, from my experience, has never received as searching and objective an examination since its publication as it has before this committee.

Senator Austin: Could I turn to another question raised by the witnesses, Mr. Chairman, and that relates to the question of the sale of equity?

As I understood what you said, you were prepared to sell equity in your Canadian corporation, KVOS-TV (B.C.) Ltd., to Canadian investors but found no substantial interest in that particular purchase.

Mr. Frith: We have, so far, found no particular interest in that proposal, in an exchange for the non-application of Bill C-58 and deletion and replacement.

We are not interested in selling, in the sense that we have something losing money which we want to get rid of. On the other hand, if we can talk in terms of negotiations, the objective of all this legislation is to get money into the Canadian system: All right, if you do not have deletion and replacement, which will kill us, or if you do not have Bill C-58, is Canadian ownership of interest to you? If Canadian ownership, plus getting money into the system, is what you are interested in, we would like to negotiate that.

Our basic reservation about the sale of ownership—we are not holding this back—is we do not think it serves the purposes as well as getting the money directly into the system. All it would do is put the money into the pockets of some shareholders.

Senator Austin: What you and I are doing is talking about how we can put you in tandem, as closely as possible with the Canadian system. Would you inform us of the rules with respect to ownership of television broadcasting systems in the United States, affecting foreign ownership?

Mr. Frith: They are roughly the same as in Canada. So, we cannot sell the station. However, as you have brought out in your questioning, the effective value of the station is its sales in Vancouver. Its sales in Vancouver are made by a Canadian company and we could sell that company. Therefore, we would be selling the most valuable asset.

The arrangement is that the Canadian company—it is a business operation—which is not a broadcaster, and is not licensed, and does not have to worry about the FCC, pays the Bellingham station a certain amount for the product, then the thing follows—correct me if I am wrong, Mr. Mintz—the same system as the tax system.

We pay, on our total revenue, 50 per cent of our tax in the United States and 50 per cent here. That is the arrangement reached through negotiation between the U.S. tax authorities and the Canadian tax authorities.

For reasons which you can understand, they had to agree on it, otherwise one of the agencies would think they were not getting sufficient income, or taxable base, because of the way you charge expenses and so on.

Senator Laird: I have been through that.

Mr. Frith: I am sure Senator Laird went through the whole thing.

Senator Austin: I would like to pursue this a little more. Is there, in your view and from your information and experience, a likelihood of the FCC feeling that such an arrangement would obviate their jurisdiction to regulate KVOS?

Mr. Frith: No sir; and I have discussed it as a proposition with Washington attorneys who specialize with work with the FCC. So long as we are not talking about the actual programming or the licensing—in fact, the FCC does not claim jurisdiction over programming. So long as we are not talking about the licence to broadcast in the United States—they cannot think of a case of a precedent, but they cannot see any problem.

Senator Austin: Is there a precedent for the FCC taking objection to Canadian jurisdiction over broadcasting practices of U.S. systems which have Canadian markets? In other words, would the originating jurisdiction take umbrage at the CRTC entering into an arrangement with you under which your broadcasting practices would be restricted by Canadian rules?

Mr. Frith: If it ever got to a point where the FCC felt that the CRTC was regulating areas that are in FCC jurisdiction, it would then create a problem. But I cannot see that as a problem, with reference to the particular proposition you and I are discussing, because it does not affect the sales side. As a matter of fact, the FCC, unlike the CRTC, to some extent, as I understand it, is much more diffident about getting into the whole question of advertising markets than is the CRTC. Essentially the FCC does not get into the question of advertising markets? Is that right, Mr. Arries?

Mr. Arries: That is true.

Senator Davey: I would like to begin by asking Mr. Frith about this regrettable intrusion of the American ambassador to the hearings of a Canadian Senate committee.

Mr. Frith: I do not have to accept the adverbs.

Senator Davey: On page 12 you say:

It is our understanding that in fact the United States Government is concerned . . .

And so on. Then when you were reading that particular part, you referred to the letter you received this morning. What was your understanding prior to the letter you received this morning? Would you be more specific? Who is that understanding from and what was the understanding?

Mr. Frith: My first recollection of knowing about that was with reference to what I discussed earlier—that is, that we had been in touch with the Washington attorneys, who had been in touch with the State Department. The first time I was aware of anything of this kind taking place was during an interview I had with the ambassador about three weeks ago. Part of the purpose was to ask if, in fact, the State Department had any concern on this subject. At that time we were advised that they did have a concern

and that the matter would be taken up. That was all the detail we could be given.

Senator Davey: So the document you received this morning did not come as a complete surprise?

Mr. Frith: It did not.

Senator Davey: In your discussion with the ambassador and the Washington attorneys, did they make it clear what the position is on the magazine portion of this legislation, because it is not clear to me, from this rather remarkable document what the position is? Did they talk to you about that?

The Chairman: Did you say the magazine?

Senator Davey: Yes.

The Chairman: The subject matter today is broadcasting.

Senator Davey: Yes, but the subject matter of the bill includes magazines, and I am wondering if this document which was received from the American government relates to the magazine portion of the bill.

Mr. Frith: I have no objection to answering that.

The Chairman: But there has to be some limit on relevancy.

Senator Davey: We received a document this morning out of the sky, Mr. Chairman, and I have a question on it.

The Chairman: You have not appreciated the purpose of that letter. It was addressed from the Secretary of State for External Affairs to me, and attached to it was this summary that had been provided to him by the ambassador of the United States with the request that it be remitted to this committee. That is what I did.

Senator Cook: This document applies only to clause 3 of Bill C-58, and clause 3 applies to broadcasting. It says:

The United States government has never objected to the policy expressed in clause 3 of this bill.

Clause 3 is broadcasting and not magazines.

Mr. Frith: There are two things that I would like to clarify. There was no sequence of events of my going and seeing the ambassador and the ambassador doing something. That was not the sequence. Secondly, no, they did not discuss at any of those meetings, or in any of those telephone calls, the publishing side.

Senator Davey: On page 13 you discuss the meeting which had taken place. You say that the first meeting between the United States State Department, the Federal Communications Commission, Canadian External Affairs and the CRTC occurred in early January of this year. Were you at that meeting?

Mr. Frith: No, sir.

Senator Davey: Was Mr. Mintz at that meeting?

Mr. Mintz: No, sir.

Mr. Frith: They were government officials only.

Senator Davey: Then how do you know what happened at the meeting? We were told this morning that they were highly confidential.

Mr. Mintz: The government officials told us that this was what we should do—to prepare a compromise proposal; and that is what we did.

Senator Davey: Then you subsequently attended a meeting on March 18. In the speech I made in the Senate in introducing the bill, and in closing the debate on second reading, I made it clear that the CRTC endorses Bill C-58. Is there anything in any of those discussions or meetings which would lead you to believe that the CRTC has changed its mind about Bill C-58?

Mr. Frith: Yes.

Senator Davey: Mr. Mintz had said no.

Mr. Frith: I say yes. The reason I say there is some indication is because, as I mentioned in reply to Senator Austin, the CRTC endorsed Bill C-58 as part of their 1971 policy, which was deletion and replacement, program substitution, under C-58.

For some period they did not appear to have any feeling or desire to reconsider it. The fact that they have had meetings and received us with proposals, and listened to our proposal in March, indicates to me that they are prepared to look at that policy and reconsider it.

In terms of making an announcement outside of that, to say "We drop our 1971 policy," no, they have never made a statement to the effect that they have dropped their 1971 policy on C-58. Since then they have modified their policy on deletion and replacement.

Senator Davey: We are talking about C-58.

Mr. Frith: But C-58 is part of that three-pronged policy.

Senator Davey: In your opinion it is, and in some others' opinion it isn't. Why did Mr. Mintz say no?

Mr. Mintz: I defer to Mr. Frith on that.

Mr. Frith: With respect, I do not see that there is any question with this part of their policy. The first time that CRTC ever spoke on C-58 was in their policy statement in 1971. They never spoke of it before that. That is the origin of their support of the bill.

Senator Davey: It is my impression—and I put this as a question to the chairman—that as we sit here this afternoon the CRTC still endorses Bill C-58 and would urge us to pass it now.

Senator Cook: What else can it do?

Senator Davey: I may be wrong in that. I would like to get confirmation of that.

The Chairman: I think you are.

Senator Davey: You think I am wrong in that?

The Chairman: Yes.

Senator Davey: You do not think that the CRTC does endorse it?

The Chairman: That is the ruling of the Chair. That is not the subject-matter this afternoon.

Senator Davey: Well, could we find out for sure, Mr. Chairman, what the CRTC's position is on this bill?

Senator Haig: What difference does it make?

The Chairman: Do you feel the CRTC should be called as a witness?

Senator Davey: I would think so.

The Chairman: We may do so. As a matter of fact, I think I mentioned that at an early stage. Perhaps you were hunting other game at that time.

Senator Davey: I may have been, Mr. Chairman. That is entirely possible.

Mr. Frith: I hope I have not left the impression with the committee, or with Senator Davey, that we are here to say that part of your consideration should be a change of mind of the CRTC. We are only giving you our experience.

Senator Cook: Surely no one expects representatives of the CRTC to appear before the committee saying they do not approve of this bill! No one could expect a government agency to come before this committee and say it does not approve of government policy.

Senator Davey: If I may for a moment, then, dwell on the thrust of my questions in this respect, the witnesses are suggesting, as other witnesses have suggested, that there should be a grand negotiation of all these things, including Bill C-58.

The Chairman: Did you question the other witnesses on that?

Senator Davey: I cannot recall whether I did or not, Mr. Chairman.

The Chairman: You had an opportunity to do so when they appeared before the committee.

Senator Davey: I would like to question these witnesses on it.

The Chairman: These witnesses are addressing themselves to the broadcast provisions of the bill, and that is where we are going to keep it.

Senator Davey: It is to the broadcast provisions of the bill that I am directing my questions, Mr. Chairman. What I am saying is that they are anxious that the negotiations they propose would include Bill C-58.

I am suggesting—and I think we should determine this one way or the other—that the CRTC has taken the position that Bill C-58 is not negotiable. I think we should know that before recommending any negotiation. That is the only point I am making.

The Chairman: It is a matter of record.

Senator Davey: That is fine.

Senator Cook: Just to clarify the matter, the CRTC is a subordinate body. If this becomes law, it cannot negotiate it. By the same token, the CRTC cannot enter into negotiations on this with the bill before Parliament. What the witnesses are suggesting is that the bill be withdrawn and there would then follow negotiation, which sounds sensible enough. I do not know that I agree, but it certainly sounds sensible enough.

Senator Davey: I think what they are suggesting is to pass the bill but not proclaim it. The word "proclaim" is in this document somewhere, is it not?

Mr. Frith: Needless to say, either of those two would be consistent with our proposal.

Senator Davey: What is the purpose, from the point of view of the Canadian broadcasters, of cable deletion?

Mr. Frith: Again, that depends on what version of cable deletion. If you take the original policy of 1971, the purpose was to have the cable company black out the commercial time on the U.S. station and allow the Canadian station to sell that commercial time on the U.S. station, sharing the revenues with the cable operators. Since that time, CRTC appears to have modified its view somewhat. The conditions to licence it has put on cable television licences recently provided for just replacement with suitable material, not replacement with commercial money. In the last cable invitation where conditions were listed with reference to Leeds County, it omitted even the deletion and replacement conditions, so it may be changing its mind about that. I can only go by what is provided for in the decisions of the CRTC.

Senator Davey: What was the purpose of cable deletion? What was the object of the exercise?

Mr. Frith: In my opinion, Senator Davey?

Senator Davey: Sure, in your opinion. I am interested in knowing what the purpose was in someone's opinion.

Mr. Frith: In my opinion, it was to take the revenue that was going to U.S. stations and use the United States signal, while giving the money from the Canadian side of it to Canadian stations.

Senator Davey: Yes, to force Canadian advertisers to buy the Canadian stations.

Mr. Frith: That is correct. The objective was to make it impossible to buy time on American stations in the hope that, not being able to buy time on American stations, advertisers would be forced to buy on Canadian stations, whether those stations had an audience or not, and that is the purpose of the bill.

Senator Davey: What is the purpose of Bill C-58? Is it not very similar?

Mr. Frith: As I said earlier, Senator Davey, it is part of the three-pronged approach. There is no question that was the objective. There is no problem between us on that being its objective. The only problem seems to be that we do not believe it will achieve that result and that there are more positive ways of achieving the same result.

Senator Davey: I know you are a brilliant negotiator, Mr. Frith, but you would have to be extremely brilliant, it seems to me, if you are throwing into the pot cable deletion and Bill C-58, both of which are intended to help the Canadian broadcaster, and say we are not going to proceed with either of them.

Mr. Frith: With respect, I do not know how much brilliance is required for that. It seems to me that does not alter the position we are taking, with respect, Senator Davey. We are simply saying that it should be negotiated against the background of an understanding that the objectives cannot be reached that way as successfully for the benefit of all parties as they can be reached with an overall negotiation, hoping to help all parties concerned with the problem.

Mr. Mintz: In deference, the objective of the bill, rather than being to help Canadian broadcasters, might be better defined as one aimed at meeting Canadian broadcast objectives, and the people or elements that are in the total universe of Canadian broadcast objectives are not just the Canadian broadcasters, but Canadian advertisers, the Canadian public, the Canadian independent film production companies and, perhaps, corporate citizens such as KVOS, which has been working for the last 20 years to provide a service in the province of British Columbia. You have to take all of the elements into account, not just the broadcasters.

Senator Cook: If it went to negotiation, at the very least you might have this policy phased in. In other words, perhaps you would only be allowed 90 per cent in the first year and then 80 per cent, 70 per cent, and so forth.

The Chairman: Senator Davey, how many more questions do you have? We still have another submission to hear.

Senator Davey: Perhaps you can give me five more minutes, Mr. Chairman, at the end of which you can hit me over the head.

Senator Haig: Why wait five minutes?

The Chairman: I will ring the bell.

Senator Davey: We have heard a lot in the last week about the fact that small-market Canadian stations are in fact going to be hurt by Bill C-58. That, apparently, is not an opinion shared by the small-market Canadian stations.

I am aware of the fact that we have received several letters from small-market stations stating that they will in fact be hurt. The chairman has been kind enough to provide us with copies of letters he has received. I have five, possibly six. There are 328 radio stations and 60 television stations.

Since receiving these letters, I took the time to check with the Canadian Association of Broadcasters, and they told me that the overwhelming majority of radio and television stations in this country, including the small-market stations, support the bill. Are you not impressed by that fact? Why do the small-market stations support the bill?

Mr. Mintz: I am going to ask Mr. Frith, as a former CAB member, to answer that. Right behind you is Mr. German from Kitchener, the writer of one of the letters. He is available for further discussion on the subject, if that is the wish of the committee.

I will ask Mr. Frith to answer the question.

Mr. Frith: I think there are a large number of elements. In the first place, I do believe that a number of the smaller stations do not realize the effect this will have, not having been here and not having heard what the buyers had to say about the effect. The fact that they did not make representations either for or against might be because they do not understand or realize the effect it will have on them. It seems to me that the reason we support that is because it was supported by those who would be actually signing the cheques and doing the buying; they are the ones who said the buy list would be reduced.

Secondly, there are some small stations that give support. For example, you have a letter from a small station

from Kelowna that supports this bill. They may have a different reason. That station is CHBC, and I checked this. They supported the bill, but I find they are owned, by checking CRTC records, by Okanagan Valley Television Company Limited; the major shareholder of Okanagan Valley Television Company Limited is B.C. Television Limited, which is CHAN-CHEK in Vancouver, which is one of the stations that, if rates go up, will definitely benefit from the result of the legislation. The president of B.C. Television Limited is J. R. Peters, who is a director of that small station. Not only that, but he has an agreement, filed with the CRTC—I can file these documents—with the Vancouver television station that the Vancouver television station will pay to him during the life of certain licences in the proportion of 60 per cent to Okanagan Valley Television and 40 per cent to Inland Broadcasters, by equal monthly instalments, an annual amount called a fund of \$450,000, increased or decreased after August 31; then there is a provision that the fund, the \$450,000, shall be increased or decreased for each fiscal year following August 31, 1976, by \$3,000 for each one per cent by which B.C. Television increases. I can imagine that Kelowna, a small station that supports the bill, has its unique reasons for supporting the bill, because it is owned by one of the big major market stations. Also, as that station's income goes up its income goes up. There are various reasons. I do think, Senator Davey, it is fair to put on the record something that relates to that question this morning.

Senator Davey: About the rep company?

Mr. Frith: About the rep company. I know you understand this, because you understand this business from your own experience, and I know there are other honourable senators who do. However, some perhaps may not realize that the sales representative is hired by the station; the station is the boss and tells him what to do. The idea of a rep writing to the station and telling him what he can do is a little hard to understand. It seems to me the possibility that an independent television station in this country would write a false letter to this committee because his rep told him to do it, just beggars the imagination. Furthermore, even the facts were not right, because one of the stations that wrote a letter is represented by a company that is principally owned by Maclean Hunter, which is not exactly one of the great opponents of this bill.

Senator Davey: What is your rep company?

Mr. Frith: Our rep company is Metrospot.

Mr. Mintz: Telecapitale owns Metrospot.

Senator Davey: How much money do they make out of you a year?

Mr. Mintz: As of now they haven't made any. We just went in with them on March 15.

Senator Davey: How much were your former rep company making a year? You are a pretty important account for a rep company.

Mr. Frith: Certainly.

Senator Davey: Extremely important.

Mr. Frith: Certainly, but if it is suggested that because we are important to a rep company another small station that is represented by them too will write a false letter to this committee I just do not see how that can follow.

Senator Davey: I do. I have been in the business and can see how that can happen.

Senator Haig: He would not be a rep for very long.

Senator Davey: I have a lot of other questions, but I will content myself with just two. On pages 8 and 9 you have long extracts from Mr. Murray and Jack Cronin. They both represent American advertising agencies operating in Toronto. Is that correct?

Mr. Mintz: They both represent the Canadian subsidiaries.

Senator Davey: They both represent the Canadian subsidiaries of American advertising agencies?

Mr. Mintz: That is correct.

Senator Davey: I would like to ask finally . . .

The Chairman: Now, Senator Davey, the five-minute limit that you set is up.

Senator Davey: May I ask one last question? I promise it will be my last.

The Chairman: Will it be a long one or a short one?

Senator Davey: It is very short. I would like to ask either of the witnesses to expand for just a moment or two, if they would, on the proposal made five years ago to establish and contribute money, and so on.

Mr. Frith: I think perhaps we could save the time of the committee by referring to the blue book which is available on KVOS, and which has not only a description of what led up to the proposal, but actually has the proposal in writing that was formally presented to CRTC.

Mr. Mintz: Page 25.

Mr. Frith: It is on page 25. I would be glad to read it; I can read the whole proposal.

Senator Davey: Senator Hayden has said there is a time pressure. I have the impression that it is tin cup tokenism, but I would certainly like to read it, and if I do so I may change my mind.

Mr. Frith: I don't exactly know what tin cup tokenism is.

Senator Davey: It means the patronizing of Canadians by Americans.

Mr. Frith: It was an expensive tin cup.

Senator Davey: I agree. It was a silver cup, and could well afford to be.

Mr. Frith: Our whole point is that we can afford to make a direct contribution to the Canadian broadcasting objective, and we would like to negotiate a way of making a direct contribution.

Senator Davey: Most Canadian broadcasters would like to do it on their own.

Mr. Frith: Believe me, it is not a tin cup proposals that we are making; it is very genuine.

Senator Davey: Thank you.

The Chairman: Honourable senators, I think we have covered the subject, maybe with a few pluses. Thank you very much.

Honourable senators, the last group today is the Advertising Agency Association of British Columbia.

Mr. Steve Vrlak, President, Vrlak Robinson Advertising Ltd.: Mr. Chairman, honourable senators, I have with me Mr. Peter Ross, Vice-President, Foster, Young, Ross Anthony and Associates Ltd. of Vancouver, one of the three leading Canadian advertising agencies. My name is Steve Vrlak. My partner, Red Robinson, and I own a small advertising agency in the city of Vancouver, dealing primarily with local and regional advertising accounts.

The brief we are about to present to you is a strong brief and it uses strong language. We feel it is often difficult to get the government in the east to pay attention to those of us from the west, and consequently we use somewhat stronger language than perhaps is normal.

Senator Macnaughton: You have been here all day, haven't you heard strong language before?

Senator Molson: When you say the government in the east, do you mean the government of some province or do you mean the federal government in the east?

Mr. Vrlak: We just say "government." Our views are those of advertising agencies and clients in our area, so, we preface all our statements by saying this is a regional view of Bill C-58.

Senator Haig: Do you advertise in all the media—print, TV, radio?

Mr. Vrlak: Yes, we do. Our agency is a whole service agency—radio, television, print, virtually all media.

Mr. Peter Ross, Vice-President, Foster, Young, Ross, Anthony and Associates Ltd.: Not just in British Columbia.

The Chairman: This is an association?

Mr. Vrlak: We are representing the views of the Advertising Association of British Columbia.

The Advertising Agency Association of British Columbia welcomes this opportunity of presenting a regional view of Bill C-58 to the Senate Banking Committee, and of expressing our concerns about some of its implications for British Columbians as a whole, and for the advertising industry in particular.

The 26 major advertising agencies which constitute our membership are responsible for over 90 per cent of the estimated \$40 million advertising agency business in the province of B.C. Our members include companies headquartered here, as well as full-service branches of national and international agencies.

The majority of our clients are British Columbia companies marketing their services or products locally, regionally, nationally and internationally, they include some manufactures, but are mostly distributors, wholesalers, retailers, services and associations. Because of the structure of our economy, with its heavy dependence on 'low profile' basic industries, and the relatively limited marketing potential available with a population of 2.5 million, advertising budgets are, in general, considerably smaller

than those generated in Toronto and Montreal. For the same reasons, the availability of suitable media to serve a regional advertising role is limited.

2. The Issues, Section 1

In addition to the concerns expressed by the Institute of Canadian Advertising in their letter of October 17, 1974, to the Hon. J. Hugh Faulkner, with which we are in general agreement, we would like to make the following observations:

2.1 *Time Canada's* Western regional editions have been a valuable advertising medium for our clients. No Canadian publication delivers an equivalent or even comparable readership.

2.2 Whatever the original intent of the bill may have been, it has in our view been perverted into a punitive, vindictive deportation order against respected 'landed immigrants' of many years standing. *Time Canada*, in particular, has been confronted with a series of escalating demands culminating in the final, and clearly impractical, demand that it be 80 per cent 'substantially different'. The inescapable conclusion must be that there was never any intention on the part of the Government of Canada to allow *Time Canada* to continue publication, or any interest in pursuing alternative solutions.

2.3 Press coverage of this proposed legislation, and the actual effect it has had of closing down *Time Canada*, has done a serious disservice to our international reputation, and is an affront to our perceived national sense of fair play and reasonableness.

2.4 There is no indication whatsoever that any Canadian publisher has the capability, resources or desire to produce a weekly news magazine comparable to *Time Canada* in scope and competence. It is significant that in the United States, with its 220 million population, *Time* and *Newsweek* are among the very few nationally circulated magazines to remain economically viable. Long gone are *Look*, *Life*, *Colliers*, *Holiday* and *Saturday Evening Post*. In Canada, *Saturday Night* is making a gallant comeback as a national magazine, but even the publisher's most optimistic forecast is for an eventual maximum circulation of 100,000... less than one-fifth of *Time Canada's*.

2.5 With *Time Canada* gone, the opportunities for young Canadian journalists have narrowed dramatically. *Time* staffers and stringers in Canada, who learned their craft in the specialized disciplines of an international weekly newsmagazine, and who could have eventually provided the nucleus for a genuine Canadian competitor, have dispersed to other jobs, or emigrated in order to find comparable challenges and rewards.

3. The Issues, Section 2

The act states that this section "shall come into force on a day to be fixed by proclamation". For amplification, the responsible minister is on record in *Hansard* as saying, "Such an amendment, of course, would not come into effect until sufficient advertising time is available on Canadian stations to satisfy Canadian needs adequately".

What is adequate? Who decides? And on what basis?

Once again, the intent of this bill, whatever its merits, is being perverted by a single-minded determination to blud-

geon U.S. border TV stations out of contention. To a world watching and wondering about Canadian self-confidence, and our rapidly eroding reputation for compromise solutions, we must seem paranoiac.

In effect, what this amendment does to KVOS-TV... which is of particular interest and concern to our association, since there are factors which in our view separate this station from other border TV stations... is to cock the pistol, then tell the victim that the trigger will be pulled at the executioner's convenience, and for apparently whimsical reasons.

On November 8th, 1974, the Institute of Canadian Advertising wrote another letter to the Hon. J. Hugh Faulkner presenting their views on the "U.S. Border Station Problem", with which Section 2 of the Act deals. We refer again to this organization because it represents our industry nationally, we support their viewpoint, and we wish to avoid repetition of concerns already well covered from a national perspective. The regional issues we see raised by this amendment to the act are as follows:

3.1 Television in Canada is not as simplistic a problem as some supporters of Bill C-58, and the accompanying CRTC regulations for deletion and replacement, would have us believe. In fact it is extremely complex, and the complexities differ, to a marked degree, region by region. The problems and possible solutions for Canadian communications in Ontario, for example, do not necessarily apply to British Columbia, and vice versa.

3.2 The sponsors of Bill C-58 seem to take only one aspect of the television problem into account... the profit-ability of CRTC-licensed commercial TV stations. Important though this aspect is, and we are completely in support of any measures to build a strong, viable commercial TV industry, there are other segments of Canadian society that should be considered in order to take a balanced look at the whole communications picture.

The viewer, for example, who in British Columbia particularly has expressed a strong desire to continue receiving all available U.S. channels. This determination was expressed quite forcibly recently at the CRTC hearings held in Vancouver, when there was public concern that one or more U.S. channels would be removed from the cable system to make room for the new French TV station and/or the new Western Approaches station.

The business community, as represented by agencies and their clients, is another segment not considered by proponents of this bill. Effectively denying Canadian revenue to border TV stations such as KVOS, which depend for their continued operation on this income, may force them out of business. All this achieves is to drastically reduce available TV time, and increase advertising costs generally. The addition of Western Approaches will not significantly help this situation. Buying commercial TV time is based on a station delivering a demographically suitable audience, in sufficiently large numbers, to make the relatively heavy investment commensurate with the anticipated sales results.

It does not seem to have occurred to the bill's sponsors that border TV stations, in our case KVOS-TV, exist because they responded to a demonstrated need, and continue to respond despite the addition of Canadian stations. In 1955, our viewers and advertisers wanted an alternative

to the CBC monopoly. KVOS provided that alternative, and set up a Canadian company to do it.

Vancouver-Victoria is a vital link in any Canadian product marketing campaign. It is the second largest English-speaking market in Canada, and is a must buy for every national or Western regional campaign, more important to total marketing in Canada than a similar sized market would be to total marketing in the United States. Yet there are fewer TV times available in Vancouver-Victoria than in any other major English-speaking market in North America. Seattle, for example, our nearest comparable U.S. City, has three network commercial stations, one independent, and one PBS station, all with healthy audiences. That's five to watch, and four to buy commercial time on. Vancouver-Victoria, with CHAN-CHEK as a joint buy, CBUT (which can only be considered as half a station because of the very limited availabilities), and KVOS, Vancouver has in effect two and a half stations. With the addition of Western Approaches later this year, we will still only have three and a half. And even that is questionable, taking into account the fact that Western Approaches is a UHF only available on cable and with a special \$75 adapter.

Even without the unknown quality of the UHF Western Approaches station, the competition for available television time in Vancouver-Victoria is intense. CHAN, CHEK, CBUT and KVOS are all in nearly sold-out positions for most of this year. More and more large advertisers are pre-empting the few prime times available with 52 week contracts, forcing smaller local advertisers into fringe, less desirable time periods, or off the air altogether.

The bill, by removing KVOS as an alternative medium for British Columbia advertisers, would merely exacerbate this situation and force a further quantum leap in television advertising rates on the Canadian stations. In January 1970, for example, a local retailer could purchase 52 spots on CHAN-CHEK for \$1,064.00, with all these spots scheduled after 5:00 p.m. if desired. In January 1976, it would cost \$3,886.00 for 50 spots and they would be rotated through all time periods because of compulsory packaging. A cost increase of 365 per cent in just six years. Some of these costs, we realize, are due to normal inflation, but to a large extent they are dictated by supply and demand.

With radio in a very healthy position in the Vancouver-Victoria market, any surge in buying resulting from KVOS advertisers switching to radio would inevitably result in the same soaring rate increases experienced in television, and add another twist to the inflationary spiral.

With advertisers blocked out of Vancouver-Victoria stations because of cost, or lack of available times, the small TV stations in the minor markets will suffer. The cost of producing TV commercials makes it impracticable to use only minor market stations, therefore advertisers will use other media.

KVOS-TV (B.C.) Ltd. appears to have been a good, tax paying corporate citizen for over 20 years. Almost all our members have used their production company—Canawest—to produce commercials and/or documentary films. Their animation department is the only major producer of cartoons west of Toronto, and we are given to understand that they have hired more Canadian actors, writers, directors, producers, animators and other specialized production people than any independent English language station in Canada outside of Toronto.

General comments.

There is a disturbing trend in this kind of legislation that we, both as Canadian citizens and businessmen must protest. It is based on the notion that we can encourage a Canadian identity, and foster Canadian excellence, by deporting the competition and closing the gates.

Where does this kind of narrow nationalism lead us? Can we expect, soon, another bill which requires our bookstores and news stands to sell 50 per cent Canadian titles? Seventy per cent? One hundred per cent?

Will art galleries be compelled to show Canadian artists? Will there be legislation to enforce a substantial Canadian content in our theatres and movie houses? The road to mediocrity is paved with good intentions. The British government tried it in 1946 with legislation requiring cinemas to show 50 per cent British films, and prohibiting the importation of foreign actors, directors and technicians. Since most British films of that period were markedly inferior to the traditional Hollywood product, and to the new wave films of France and Italy, the results were disastrous for the industry. It wasn't until British film makers began to make good movies that people would pay to see, long after the quota system was abandoned, that the industry developed its own unique vitality and identity.

The point? You cannot legislate a market for a second-rate product. The immutable law of supply and demand applies to the cultural as much as it does to the commercial product.

We are concerned also that the possible benefits of this bill are far outweighed by the repercussions it may well provoke. The revenue supposedly to be diverted from *Time*, *Reader's Digest* and the border TV stations to Canadian media as a result of C-58 is in the order of \$30 million.

This is a small amount compared to what we earn from export trade to our biggest customer, the United States. British Columbia, with its raw material exports already in some jeopardy from inflating labour costs, is particularly vulnerable to U.S. trade retaliations.

Conclusions.

This bill is, in our view, discriminatory, punitive and in many of its aspects counter-productive to the original intent.

The blatant escalation of demands laid on *Time Canada* is a disgraceful abuse of governmental power. The publicity arising from this cynical exercise has done serious harm to our international reputation.

Time Canada, in our view, agreed to meet all reasonable criteria regarding Canadian content and ownership and should be allowed to continue publishing a Canadian edition. The "80 per cent different" demand was not reasonable.

We understand negotiations are now being conducted between the two countries to try and solve the "border station problem." A mutually agreed solution which helps Canada meet its broadcast objectives without proclaiming this aggressive and unfriendly bill seems to us highly desirable. We hope the government will pursue this at the highest level, but in any case we hope from our regional point of view that it is recognized that the position of KVOS-TV differs substantially from the other border stations under discussion and, if necessary, is treated as a separate issue. We thank you for the opportunity to appear before you and for your time.

The Chairman: I take it that your membership covers the whole field of advertising?

Mr. Vrlak: Yes, virtually all of the advertising agencies in British Columbia.

The Chairman: Because you were talking about *Time*. You do realize that *Time*, by moving out of Canada, lost the exemption it had under the 1965 law; and even if it tried to come back in tomorrow, it would have to come back in under new terms, according to the present bill.

Mr. Ross: I think, Mr. Chairman, that we recognize that, so far as *Time* is concerned, we are speaking to a dead issue; but we felt very strongly that we still had to say what we had to say.

The Chairman: Are you going so far as to suggest that we should undo the liability which *Time* has incurred by moving out and losing its exemption? Should we try to undo that?

Mr. Ross: If it is possible to undo it, yes, I think we should try to undo it. I feel very strongly on that.

Mr. Vrlak: However, we felt that we should address ourselves to all of C-58 and its ramifications rather than the specific problem of KVOS. Although KVOS is very much in question and that is primarily what we are concerned with, we have no brief with KVOS. All of our agencies use the station. We are concerned with this factor of television availabilities, for myself in particular, for local, Vancouver and British Columbia advertisers. If we were here discussing legislation that was going to affect channel 8, CHAN television, going off the air, our position would be exactly the same. We need more television availabilities in Vancouver, not fewer. This new station will do very well. They will have to prove themselves, but they will be a money-making operation in X length of time. No one can determine that.

The Chairman: Are there any questions?

Senator Macnaughton: I think it is a very well-written brief. Whether it is right or wrong, I pass no judgment, but it is very interesting.

Senator Manning: Was a comparable submission made by your committee to the Commons committee?

Mr. Ross: No, there was not, unfortunately. We did not seem to have that opportunity. That is why we are particularly grateful that we have the opportunity now. I do not want to overemphasize this, but the lack of contact between Vancouver and the government, or the apparent lack of contact, the lack of mechanism to do what we are doing now, seemed to preclude it—partly because our association is quite young. We were formed only last year, and there wasn't an opportunity to put a brief together as an entity until this opportunity came along. There were really two reasons: one, we did not have the opportunity, and, secondly, we did not have the organization to use that opportunity.

Senator Manning: There is a national advertising association to which, I assume, you belong.

Mr. Ross: Some of us do and some do not.

Mr. Vrlak: I do not.

Mr. Ross: He does not, but I do, and so does my parent company.

Senator Manning: Would you say that that association accepts the same position?

Mr. Ross: Basically I think the broad outlines of our brief seem to coincide with what ICA says, yes. Our concerns are at two levels. One, our concern, from a customer's point of view, is (a) as a Canadian businessman and (b) as a Canadian citizen. I do not know whether you have sensed this, but there is a feeling of outrage in some of the things we have said in the brief; and the outrage comes as much from being Canadian citizens as from being Canadian businessmen. That kind of outrage I do not think is reflected as strongly in the ICA brief, because they are rather more established gentlemen. They are operating in a milieu that is basically an Eastern milieu, whereas we are sort of outside of that, in a sense.

If our brief sounds strident, it is because we need to be strident in order to get attention. The ICA is much more established than we are and does not need that same tone—although basically we are saying the same thing. Basically they feel as strongly about *Time Canada* as we do. The advantage of *Time Canada* to us was that they had enormous flexibility as an advertising medium. They made available, as an advertising media, up to seven different editions, and there has been nothing comparable since then.

Senator Molson: Would you repeat that, because it was difficult to hear.

Mr. Ross: The point we stress about *Time Canada* is the number of different editions that were made available to advertisers. It was a very flexible advertising medium. It was also a unique advertising medium in terms of readership, and we made a rather strong statement to which some of you might object, when we said that there is nothing comparable or equal in Canada. We stand by that. There is not. Certainly from a regional point of view we stand by it. There is no comparable advertising vehicle to the western edition of *Time* magazine—whether *Maclean's*, *Saturday Night*, or whatever. The opportunity for that kind of advertising vehicle has now gone. I understand Senator Hayden's point that perhaps it is beyond recall, that *Time Canada* has gone for good and we can only regret it.

Senator Molson: Have you any hope of any Canadian magazine filling the vacuum that might be created?

Mr. Ross: If you give me a sufficiently long time frame, I think that something will evolve. I certainly hope it will. I think it will evolve with respect to *Time Canada* for very good reasons: there is still the magazine advertising bureau in Canada, which is a promotional arm of the magazine industry. Both *Time*, *Reader's Digest* and *Maclean's* were the key members of that bureau and were very aggressive merchandisers and promoters. Certainly one-third of that drive has gone and perhaps two-thirds have gone. That, I think, has slowed the process down rather than helped it. *Time*, with its drive and dynamism and expertise, did a tremendous amount to put forward magazine advertising as an alternative to television advertising. That thrust, that dynamism is now gone. For that reason, it is my view that the process has been slowed down rather than speeded up. I do not see anything in sight at the moment to replace *Time* magazine.

Senator Cook: Have you any idea as to the circulation of *Time* in Western Canada as compared to the circulation of *Maclean's* in that area?

Mr. Ross: The circulation of *Time* in British Columbia, I believe, was something in the area of 56,000. Starting with the national edition, I believe the circulation was 540,000, and you could buy advertising on that basis. You could then break it down for advertising purposes into regions such as Metropolitan Toronto, Metropolitan Vancouver, Toronto East, the Prairies, and so forth. There were various different ways by which you could buy advertising in *Time*.

Senator Cook: Taking the Prairies and British Columbia together, what would be the approximate circulation of *Time*?

Mr. Ross: In British Columbia, it was roughly 60,000. I think it was 58,500, or something of that order. The circulation in the Prairies was something of the order of 32,000.

Senator Cook: That would be an approximate Prairies-British Columbia circulation of 90,000. Do you have any idea of what the circulation of *Maclean's* is on the Prairies?

Mr. Ross: I do not have the figures for *Maclean's* as of now, no.

The Chairman: You are referring to its general circulation?

Senator Cook: The witnesses have been talking of circulation from a regional point of view, Mr. Chairman. They gave the circulation of *Time* in the Prairies and British Columbia as approximately 90,000.

Mr. Ross: If I may interject, to put this in its proper perspective, it is not entirely a numbers game that we are playing when we look at magazines. There are reasons we would have bought *Time* rather than *Reader's Digest*, notwithstanding that *Reader's Digest* outnumbered *Time* three to one in terms of circulation, the main reason being the different kind of audience that each magazine delivers. Even if *Maclean's* circulation approaches that of *Time* magazine in those areas, and notwithstanding that *Maclean's* is changing its format, it still does not quite deliver what *Time* magazine does in terms of audience.

Senator Molson: We have had some representations made to the committee that it would be more desirable to have a more Canadian approach to the reporting of news than *Time* was wont to do.

Mr. Ross: If I may answer that, I think we need both. That is a highly subjective answer. I find—and I do not think I am unusual—that to get a good grasp of what is happening in the world, I have to read *Maclean's*, *Time*, the *Manchester Guardian* and the *New York Times*, and so forth.

Senator Molson: We can still get *Time* and *Newsweek*, although we do not have the Canadian editions.

Mr. Ross: I understand that *Time* without Canadian advertising will drop to somewhere around 55,000. Therefore, it would not be as available as it has been.

Mr. Vrlak: There is one further point I should like to mention, Mr. Chairman, and that is on the subject of the small-market stations. I have heard this subject bandied about at some length today. I feel I can speak with some degree of authority on it. We have clients in British Columbia who are headquartered in Vancouver, with outlets in the Okanagan and other peripheral areas of British Columbia.

Our clients are that nebulous entity known as small Canadian businessmen where advertising dollars are very dear. We do not deal in hundreds of thousands; we deal in thousands, \$2,000, \$3,000, \$5,000 a month. Some of our clients who buy television time on the Vancouver stations also buy interior television time at such points as Prince George, Terrace, Kitimat, and so forth. I have one client in particular who buys in Vancouver, in the Okanagan, Prince George, Terrace, and Kitimat areas. If television time becomes unviable in Vancouver, too expensive, we are not going to go to the expense of television production, which is considerable, just to buy television time in those outlying areas. It will not happen. We will go to another medium. We will go to radio, or some other medium.

Senator Molson: The small station audience would not be sufficient to justify all the costs of television advertising.

Mr. Vrlak: That is right. Also, there is a rule of thumb for television advertising purposes that you use roughly 10 to 15 per cent of your available budget for production. Dealing in terms of the small market, if a television commercial costs \$2,000 to make and you are buying time to the tune of \$700 in one market and \$500 in another, it does not make sense to do it just for that. You have to have a major market in which to buy as well.

That is my agency's point of view. I know there is not a client of mine who would give us authorization to make a television commercial for Kelowna or other centres in the interior. Most of the business conducted by our clients is derived from the Vancouver market where, as someone mentioned, 85 per cent of the market of British Columbia is located.

The Chairman: If there are no other questions, I should like to thank the witnesses for their presentation.

The committee will meet again tomorrow morning at 9.30 a.m., at which time we will have before us the Association of Canadian Advertisers. Following that, we will hear from Mr. Armstrong on Canadian textile problems.

At one of our earlier meetings, I was requested to try to obtain a copy of the mock-up of *Time*. I have been provided with several copies of the mock-up of *Time* that was submitted to the Department of National Revenue and a copy of the issue of *Time* U.S. for the same period. So far, it has not been a public document in the sense that it was only produced to the department. So much so, in fact, that the department would not even provide us with a copy, although it had undertaken to do so, without obtaining the consent of *Time*. *Time*, instead of giving that consent, provided me with a certain number of copies, all of which are numbered, and the only request made was that after honourable senators have a look at them, that they be returned to me and I will, in turn, return them to *Time*.

I think the reason for that request is that the mock-up is not a quality production item. It was not put together for that purpose. It was only put together for the purpose of determining the approach to measuring the differences in content. I think the department's calculation came out at about 44, 45 per cent.

We can distribute that mock-up at the commencement of tomorrow morning's meeting, but I am under a sense of obligation that all copies will be returned to *Time*.

Senator Molson: That seems fair.

Senator Haig: May I suggest, Mr. Chairman, that we sign for the copies and that they not leave the room?

The Chairman: Yes.

We will adjourn until tomorrow morning at 9.30.

The committee adjourned.

Ottawa, Thursday, June 10, 1976

The committee resumed at 9.30 a.m.

Senator Alan A. Macnaughton (*Acting Chairman*) in the Chair.

The Acting Chairman: Honourable senators, I call the meeting to order. At the request of your chairman and if it meets with your pleasure, I will now commence the proceedings.

Hon. Senators: Agreed.

Senator Lang: Mr. Chairman, before we commence the proceedings this morning, may I draw to the attention of the committee a report in the *Globe and Mail* this morning of yesterday's proceedings in this committee which is headlined, on the first page, "U.S. ambassador's call for delay in ad tax 'regrettable intrusion' "? That article carries over to the second page, where the headline is "Enders move 'intrusion' ". Those headlines derive, of course, from Senator Davey's remarks in this committee yesterday. I would like the record to show that Senator Davey is not a member of this committee and I, for one, wish to disassociate myself from any assumption that the information that was conveyed to us by the Secretary of State for External Affairs yesterday could possibly be termed an intrusion of any kind in our deliberations. On the contrary, I welcome the information that the Secretary of State for External Affairs conveyed to us by forwarding a copy of the letter he had received from the United States ambassador.

The Acting Chairman: Is there any further comment?

Senator Cook: I might say, in the same vein, Mr. Chairman, that I believe Senator Davey is conducting what I would call a spirited rearguard action in this committee in defence of Bill C-58. In my view, he has now introduced a red herring of great magnitude but, fortunately, of no substance whatsoever. I disagree completely with his comments and, in my opinion, the action of the ambassador in transmitting the views of his government was a proper one. Whether we agree or not, we must surely grant the United States government the right to have and express its own views. I doubt if any other senator would agree with Senator Davey in this matter.

The Acting Chairman: Is there any other senator who wishes to say anything?

Senator Molson: Mr. Chairman, I would like to observe that if there is any question of propriety with respect to this message having come to us, the question should be whether the Secretary of State for External Affairs should have forwarded it. It seems to me perfectly proper that the ambassador of the United States should make his views known to the Secretary of State for External Affairs. Then it seems to me that as far as criticism in this committee is concerned, if we do not think it appropriate, it is to the attention of our own minister that we should call this matter.

Senator Manning: Mr. Chairman, I would like to associate myself with the comments made by others which, in my opinion, are very appropriate. I disassociate myself from the statement which appeared in the press this morning.

The Acting Chairman: Then I take it that it is the feeling of the committee that your remarks should be

called to the attention of the Secretary of State for External Affairs.

Senator Walker: We should also put it on the record that this is unanimous.

The Acting Chairman: Is it unanimous?

Hon. Senators: Agreed.

The Acting Chairman: Gentlemen, item number one on our agenda is the appearance of the Association of Canadian Advertisers. Mr. Blakely, will you come forward and introduce your panel, please?

Mr. T. Blakely, President, Association of Canadian Advertisers: Thank you, Mr. Chairman.

Honourable Senators, my name is Tom Blakely and I am the senior salaried officer of the Association of Canadian Advertisers, my title being president. I would like to identify those who are with me in their ACA roles this morning—"ACA" is what we call ourselves for short. On my extreme right is Mr. Walter Trudeau, who is a vice-chairman of ACA, which is an elected position within the association. He is also the chairman of the Quebec section of ACA and is with the Corby Distillery Company as director of executive relations and consumer services. Next is David Hopkins, who is also a vice-chairman of ACA and treasurer of the association. He is the advertiser co-chairman of the joint broadcast committee, which is a body put together by the advertisers and the agency group. David Hopkins is also marketing services manager for the Procter and Gamble Company. On my immediate right is Wayne McCracken, ACA's legal counsel.

I think I should take a minute to clearly identify what ACA is. This is a complex industry and there are more initials to identify people these days than Campbell's put in their soup and if I may I will just go over this carefully. We are the representatives of advertisers; we are not the representatives of media or advertising agencies. Advertising agencies are employed by the members of our association.

The Association of Canadian Advertisers, ACA, is composed of about 220 companies, which produce and sell goods and services in Canada. They represent approximately 75 per cent of all national advertising placed in the country and, although all of these member companies are Canadian companies, we estimate that slightly more than half of them are subsidiaries of companies whose head offices are in England, France, Germany, Switzerland and the United States, among other countries. Members of our association produce and provide goods and services that we estimate to be something in the order of \$50 billion. To sell these goods and services our members place advertising in mass media through their advertising agencies.

We estimate that our members spend between \$450 million and \$500 million annually on advertising. We see ourselves as businessmen. We use various media to tell the public about our products and services. We select individual media, television, radio, newspapers, weekend supplements, magazines, outdoor advertising and the like, on their capacity to communicate with our potential customers both effectively and efficiently. Effectively, in that the audience will receive our message and understand it; efficiently, in that we can accomplish that communication at less cost in one medium than in another.

We thank you for the opportunity of appearing before this committee to express our views with respect to Bill

C-58. I should add that I am a paid employee and the others present from ACA are volunteers.

You will see from the position paper that we have sent to you that we have confined our comments on the bill to matters affecting the use of advertising as a sales tool by businessmen. Our association is concerned that if advertising expenditures become non-deductible in the circumstances contemplated by the bill, not only the purpose underlying the bill may not be achieved, but also advertisers may be adversely affected. An important principle underlies our comments both in respect to periodicals and broadcasting. That principle is that an advertiser who buys advertising time or space bases his decision upon the proven abilities of those alternative advertising vehicles to deliver audiences of the kind and numbers he wants. As we have understood the original purpose of the bill relating to periodicals, it was to redirect the advertising revenues of *Time* and *Reader's Digest* into Canadian periodicals. That would have amounted to approximately \$18 million, or approximately 14 per cent of total magazine advertising revenues. From the outset we have felt that the bill would not achieve these goals. Events since we first expressed this view have seemed to confirm our original opinion. *Reader's Digest* revenues will probably continue as they have been over the years because it appears that *Reader's Digest* will continue to publish in Canada. It is not likely that other Canadian magazines will gain much revenue from this source. In the case of *Time* magazine the situation is really only slightly different, in that it seems that *Time* will still be available to Canadian advertisers and Canadian advertisers appear to be continuing to advertise in *Time*. For instance, to the end of April of this year we understand that *Time* has sold some 210 pages of advertising, against 370 pages to the same date last year.

With the uncertainty of the position of *Time* it is interesting to note that *Time* has maintained sales at approximately 60 per cent of its previous level. The number of advertisers who have stayed with *Time* through this period of uncertainty appears to be approximately 65 per cent. It is hard to know precisely where the revenue from the 160 pages of *Time* has gone, but it seems likely that some of them went to the bank, some went to other magazines and some to media other than magazines.

We will be pleased to answer any questions you have arising out of the points raised in our position paper in relation to the periodicals. However, in the case of broadcasting we believe that the purchase of time on Canadian broadcast outlets is and will continue to be based principally on the ability of those outlets to attract Canadian audiences. The bill will not induce advertisers to buy time that does not have adequate audiences. Advertisers will, however, of their own accord buy time on programs and stations that have a high level of acceptance by the Canadian public. The recent growth of Global's audience and resultant increases in revenues without Bill C-58, perhaps demonstrates this point. We feel that the bill will reduce competition for broadcasting advertising dollars in major markets. At the moment Canadian advertisers buy time on border stations for two reasons: one, these stations deliver significant Canadian audiences; two, and more important, the viable Canadian stations do not have enough effective time to sell.

What we mean by "effective time" has been explained on the top of page 4 of our brief, but I should like to take a moment to put that before you again. By "effective time"

we mean commercial time within programs which have a measurable audience of potential customers for an advertiser's products. And we mean commercial time of this kind that can be bought at a price related to the size of that audience. We feel, therefore, that the serious reduction of border station competition will increase the market power of the viable Canadian stations. That may result in high advertising costs on those stations with these results: Advertisers will have to pay more for time on stations that deliver the audiences they seek; that will leave less money to be spent on other stations, including new or developing stations; so that in fact the ability of those stations to grow and become attractive to the advertiser may therefore be hindered.

We say that we are concerned with the effect of the bill on us as advertisers, and bear in mind that we see ourselves as businessmen. Of course, the bill may increase our costs of doing business. We view advertising as an efficient method of selling goods and services. Selling through advertising is significantly less expensive than other methods of salesmanship. We view *Time*, *Reader's Digest* and the border broadcasting stations as effective advertising sales vehicles. To the extent that the bill increases the cost of advertising in those media, our selling costs would be increased. On the other hand, to the extent that the bill effectively removes one or more of these advertising vehicles our available inventory of advertising vehicles will be reduced, and that causes us concern.

In our position paper we refer to the discussions which we understand have been going on between Canada and the U.S. regarding the border broadcast situation.

We do not, of course, know any details about what was or is being said or done. We do feel, however, that matters of this kind should be discussed in a framework of co-operation between the countries involved.

In the document we sent you earlier we said that we felt Bill C-58 was a blunt instrument, that its objectives might more surely be achieved with some finer tools. May we suggest some of those? As businessmen we know Canadian publishing faces just about the same problem that every other Canadian industry faces: short runs, small population, and those things. Publishing is an especially sensitive business. I do not think there is anyone from the Association of Canadian Advertisers who would recommend that the publishing industry would accept a subsidy—and I do not think they should accept a subsidy. But there are some other ways that assistance could be given. We have been chided a bit for wanting to protect the deductibility of our advertising expenditures as normal business expense. Well, those expenditures are made to build our businesses. There is a possibility that those expenditures could have an increased deductibility. There is the possibility that Canadian authors might be subsidized through some tax concessions. There is the possibility that publications of the kind we are discussing could be subsidized through a reduced tax situation. It is conceivable that in the publishing field purchases of paper by Canadian publications might be tax free to avoid direct subsidy to the publication and yet to assist in other ways.

Finally, as we say on page 5 of our position paper, if the broadcast provisions of Bill C-58 are to be enacted, we feel that the three conditions set out on that page should occur prior to the effective date.

Honourable senators, thank you for your attention. That is the end of our prepared statement.

The Acting Chairman: Is there any other member who wishes to make a statement at this time? If not, Senator Laird.

Senator Laird: Mr. Chairman, perhaps I can prompt one of the other members. Which one of you is from Corby's?

Mr. Walter Trudeau, Vice-Chairman, the Association of Canadian Advertisers: I am, sir.

Senator Laird: I have a special interest in you, because I come from Windsor.

Mr. Trudeau: Yes.

Senator Laird: Although I have not seen your particular advertisements, I noted with interest that advertisements from Hiram Walker and Sons are still appearing in *Time*, as was mentioned by Mr. McCracken. Is it a fair question to ask you if this is a temporary matter or is it a case of entering into a long-term contract for advertising in *Time*?

Mr. Trudeau: I cannot answer on behalf of Walker's, obviously, but I can say that normally in the advertising business, particularly in the periodical side, we do not buy ads in these periodicals on a short-term basis. They are normally fairly long term. Normally it is a number of ads which are bought over a period of time.

Senator Laird: Well, that is as far as I can ask you to go on that, I suppose. The second aspect of the matter is that you are aware that under the bill a certain clause will allow the deduction of advertising expenses incurred in otherwise prohibited publications if the advertisement is directed towards potential American purchasers. You are aware that that exists, are you?

Mr. Trudeau: Personally, so far as our own company is concerned, Corby's, we advertise only in Canada.

Senator Laird: Do you distribute at all in the United States?

Mr. Trudeau: Corby's distributes very little in the United States. We have one or two products particularly that are distributed in the United States, but on a very minor basis.

Senator Laird: You are not in the same league as Canadian Club, then.

Mr. Trudeau: Certainly not.

Senator Laird: So you would not be able to take advantage of that particular clause if it were to become law.

Mr. Trudeau: That is right.

Senator Laird: Thank you.

Senator Lang: Mr. Chairman, throughout we have been dealing with the question whether or not there is enough effective time on the stations, as Mr. Blakely referred to, and I wondered if he could elaborate on that for the committee. I am particularly interested in what is effective time. You mentioned generally that it is the size of the audience and the type of audience, and so on. Can you give us a specific example of a problem you would face as an advertiser in finding effective time for a certain product?

Mr. Blakely: Mr. Chairman, I think David Hopkins, who is ACA's co-chairman of the joint broadcast committee, is precisely the man to answer that question.

Mr. David Hopkins, Vice-Chairman, Association of Canadian Advertisers: Mr. Chairman the situation in Toronto varies seasonally, but in the fall period I think it is fair to say that the major stations of CFTO, CBLT and CHCH, are completely sold out of prime time. The developing stations of Global and CITY, have availabilities on occasion, but not with major audiences and not with the ability to build the reach that an advertiser is looking for.

I think it is important to understand that when an advertiser attempts to buy television, he has set himself the objective of reaching a reasonably high percentage of customers in the market. His reach objective might be 60 per cent or 70 per cent of the people in that market, for example. It is a reach limitation that is the major problem with developing stations of Global and CITY at this point in time, because in the fall or winter of 1976 survey, if I could just express the reach in terms of the percentage of people who listen to the station once or more often in the survey week, on CITY television, only 42 per cent of the population were reached at least once. Fifty-eight per cent of them did not listen to or view that station. Therefore for an advertiser who has a substantial reach objective, that station, on its own, cannot deliver the audience he is looking for. He must be able to get on to one of the major stations that can deliver reach in that market.

As I think other witnesses have pointed out before, the situation on Global television is improving quite dramatically. This is important, and I think Global's revenues are reflecting the good performance resulting from that building audience. Where the audiences are, the advertising dollars then follow.

Senator Davey: CITY Television, as you probably know, appeared here yesterday before this committee. I listed for them the ten largest television advertisers in the country. They said eight of them were presently under contract with CITY, and that they were negotiating with and hopeful of getting the other two. How does that square with your comment about CITY Television?

Mr. Hopkins: Mr. Chairman, I think we are talking about a question of degree. A station does not become a black and white situation. They have time periods that do deliver a greater proportion of reach, and time periods that do not. Most of the major advertisers that CITY would be referring to, I think it is fair to say, would have the reach base being established on other stations already.

Senator Davey: They were the ten largest.

Mr. Hopkins: Then I would suggest that those advertisers do have a base of weight either on network television or on CFTO and CHCH-CBLT, and therefore, when they can find some efficient time on the smaller stations, that can be a useful addition to them.

Senator Davey: Is it a fair observation to say that increasingly efficient times are available on CITY, and on Global, and on smaller stations?

Mr. Hopkins: The trend has certainly been improving, and I saw a very optimistic presentation by Global, looking at their next year's schedule, which, I hope for all of us, will be delivering much more audience next year.

Senator Manning: Mr. Chairman, the evidence we have heard here this morning, and at other times, seems to indicate quite a difference of opinion on the extent to which Canadian advertisers will withdraw advertising

from U.S. publications and TV stations as a result of costs no longer being deductible.

Mr. Hopkins: can you enlarge a little on your own conclusions on that? We have heard evidence ranging all the way from the statement that it is all going to be cut off from Canadian advertisers to the suggestion that very little of it will be cut off because of the audience appeal of those sources of advertising. Can you enlarge on that?

Mr. Blakely: If I may, Mr. Chairman, I would like to take the periodicals side of that question, and perhaps Mr. Hopkins will take the broadcasting side. Which would you like first?

The Acting Chairman: We were speaking about broadcasting, so let us continue with that and then come back.

Mr. Hopkins: Mr. Chairman, this is a very difficult area to estimate, because individual companies are going to make individual decisions under the circumstances as they develop. However, I think a good example that we can look at is the estimate of the spending of the Buffalo stations, which has been in the order of \$10 million a year, and nobody is expecting all of that money to come into the Canadian stations. The estimates have been more of the order that \$6 million or \$7 million of that might go to the Toronto area stations.

The difficult part to assess is what happens to that other \$3 million or \$4 million, and what the implications of that \$3 million or \$4 million are on the stations across the rest of the country. Because that \$3 million or \$4 million represents the Toronto portion, if you like, of a national advertising campaign that I would suggest would involve \$12 million or \$16 million outside of Toronto, that would go along with the \$3 million or \$4 million that are being spent in Toronto. If those dollars from Buffalo do not go into the Toronto market, then I would suggest that while some net improvement would occur in the Toronto area, it would be more than offset by the withdrawals that would be occurring in other areas of the country, and this is a hard thing to forecast precisely. It is quite easy for us to come to the conclusion that it is very probable that more than the \$6 million or \$7 million going in the Toronto area would be coming out of the other areas of the country, and therefore they would not have a net gain in revenue overall as a result of this legislation.

Senator Manning: Let me follow that one step further. Is it correct that many of these advertisers, say on Buffalo stations, are also, at the same time, on Canadian stations?

Mr. Hopkins: I would say yes.

Senator Manning: If that is the case, is there a tendency on the part of advertisers, if they discontinue advertising on Buffalo stations, to increase their Canadian advertising? Or do they feel that their present degree of Canadian advertising is optimum, and that there would be little to be gained by increasing it, merely because of the loss elsewhere?

Mr. Hopkins: I think it is fair to say, Mr. chairman, that their first position would be to try to increase it. However, if they found that particularly difficult, either because of availabilities, or because of price escalation, then, if they had a good, solid base on the Canadian stations, I think they certainly would not re-invest that money.

Senator Lang: Yesterday one of the Buffalo stations, in their evidence, said that they were in fact secondary mar-

kets to the Toronto market, that is, that the first choice of the advertisers was a Toronto station, and that they would only advertise—and this is my presumption, now—on a Buffalo station if they failed to obtain their first choice. Would you say that is correct?

Mr. Hopkins: I would suggest that that is a proper statement for most advertisers. They are trying initially to buy on the Toronto stations, on the local Canadian stations, and it is the shortage that is leading the advertisers to go over to the Buffalo stations. This has not always been the case, I might say, but in recent years I would say that that is the way things are.

Senator Cook: What has brought about the change?

Mr. Hopkins: I think the development of the Canadian stations. Going back in history, obviously the Buffalo stations were the only ones that were there to begin with, but since then the Canadian stations have progressively built up their share of the audience in the Toronto market, and have become very viable stations to buy.

Senator Molson: Would there not be a difference in approach among your members, depending on whether they are in fact subsidiaries of American companies or Canadian-owned companies?

Mr. Hopkins: I would say not.

Senator Molson: The fact that their market, in the case of Canadian companies, is much more localized would have no bearing on their placing of advertising?

Mr. Hopkins: My experience, certainly in the case of our own company, would suggest that there is no difference in that situation, because the Canadian operations are being run autonomously by Canadian management groups who are trying to spend their Canadian advertising dollars in order to sell Canadian goods to Canadians, and they are therefore looking for the best way to spend their advertising budget in Canada.

Senator Molson: Have you not got the same products on both sides of the border?

Mr. Hopkins: There are many instances where there are, but I would suggest that the U.S. advertising budget is spent where the U.S. planning wants it to be to sell goods on the U.S. side of the border, and the Canadian budget is being spent by a Canadian management group to get the best effectiveness against the Canadian marketplace.

Senator Davey: Mr. Chairman, the witness mentioned the point that more than half the members of ACA are subsidiaries of companies in other countries and which had their head offices in other countries. I wondered what percentage were American.

Mr. Blakely: My guess is around 40 per cent—35 to 40 per cent.

Senator Davey: In the presentation which we have before us you say that:

ACA wishes to state clearly that it strongly supports the development, maintenance and encouragement of a healthy, economically viable, effective Canadian magazine industry and Canadian broadcasting industry. The reason for this position can be simply stated. Advertisers buy audiences.

Is that the only reason you support that position—that advertisers buy audiences? Is it simply a dollars-and-cents matter?

Mr. Blakely: Mr. Chairman, in our opening statement we said that we were presenting ourselves to you today as businessmen, and that is what is behind that statement. I think that business does have a social conscience that it exercises in many ways, but we are here primarily as businessmen, and we are tremendously interested in the development of a viable set of media in Canada for our use as selling tools.

Senator Davey: Let me put my question in a different way. All things being equal, would you prefer to advertise in Canadian media?

Mr. Blakely: The answer to that question is yes.

Senator Davey: Do you believe, with me, that given the opportunity Canadians can produce magazines and Canadian television can produce programming which can compete effectively with the Americans?

Mr. Blakely: Mr. Chairman, when the Canadian media produces audiences, advertisers are there.

Senator Davey: That was not my question. Do you agree that Canadians can do it, given the right climate?

Mr. Blakely: I agree.

Senator Davey: I am sure this is a question you expected to be asked, so I may as well ask it. The position you are taking today on Bill C-58 is reminiscent of the position the ACA took prior to the introduction of the Canadian content regulations on television and radio. Is that a fair statement to make?

Mr. Blakely: I think, Mr. Chairman, that David Hopkins would speak to the broadcasting side of this and I would like to speak to the print side.

Mr. Hopkins: I think our association can be very proud of the contribution we have made in a number of areas to the development of our broadcast system. The senator was asking a question with regard to the Canadian content regulation. We made a presentation at those hearings and the contribution we made, I think, is an important one in the development of workable practical legislation that will achieve the objectives established. Certainly, when we appeared on the question of Canadian content we were suggesting that the goal should not be set too high too early. That is consistent with the kind of approach we are taking here. I think it is also important to say that that is the direction that CRTC ultimately followed in that area. They relaxed from the original pressures and set up a timetable that was much more workable, and I think that that particular set of objectives has been admirably followed up by the CRTC.

Senator Davey: You think it has worked out well?

Mr. Hopkins: I think it has.

Mr. Blakely: If I may address myself to the print side, Mr. Chairman, I was thumbing through some past presentations on this particular subject on the print side and our records go back to 1958. I must say that our approach has been consistent, even though the people here today had nothing to do with ACA back in 1956, 1958 and 1960. Those of us who are here today on the print side continue to say

much the same thing about print, so our attitudes have been pretty consistent.

Senator Davey: I agree, because I think the position you are taking here today is consistent with the position you have taken in the past. I am not suggesting that you are hostile to Canada; I am simply saying that you have not been in the vanguard of the movement for these kinds of reforms.

The only part of your brief which I think personally is misleading—and perhaps you can straighten me out on this—is on page 3, paragraph 2, where you say:

In recent years, *Time* and *Reader's Digest* have been receiving less than 14% of the total advertising dollars spent in magazine advertising in Canada. This total expenditure includes advertising dollars spent in such magazines as Saturday supplements, Canadian consumer magazines and major business publications in Canada.

Now, Saturday supplements are franchised by the Canadian Daily Newspaper Association and they have nothing to do with the magazine industry. And then when you refer to "major business publications" I am wondering whether you are referring there to business papers like the *Financial Post*.

Mr. Blakely: There are 150 of those that are left outside of that.

Senator Davey: You would agree with me, then, that on the subject of the business press the business press industry which many of your advertisers use in this country is Canadian precisely because of this kind of legislation that was passed in 1965? We now have a Canadian business press. Is that correct?

Mr. Blakely: That is correct.

Senator Davey: And we have it thanks to this kind of legislation passed in 1965.

Mr. Hopkins: If I could comment on this, Mr. Chairman, the question began with the inclusion of weekend supplements in our totals, and on the question of which ones one includes, we have to cover a broad spectrum of advertisers. For many consumer goods I would suggest that *Time*, *Reader's Digest* and the weekend supplements are very much equal options that they are looking at, and they look at them in terms of costs efficiency and the ability to reach their target audience. I think that for some other kinds of advertising, *Time* magazine and business publications may also be looking to deliver the same target audience. What we have tried to do here is to put together the total package, and that is the base against which we look at *Time* and *Reader's Digest* revenue.

Senator Davey: And you do not think it is misleading. I telephoned several agencies this morning in Toronto and inquired if they include Saturday supplements as magazines, and the answer was no.

Mr. Hopkins: I would suggest, Mr. Chairman, that the problem is often one of semantics. The weekend supplements I would not call magazines but they are part of the print media and they are options that an advertiser is looking at when he is making these decisions.

Senator Davey: Mr. Chairman, I have just three other questions. I was going to ask you about the "less blunt instrument", and I was delighted that you indicated that

they were all tantamount to subsidies to the print media. Have you discussed that idea with any publisher?

Mr. Blakely: No.

Senator Davey: I am also wondering, if, as and when this bill passes, will the ACA advise its multinational members to circumvent the law and funnel Canadian-oriented commercials through other channels.

The Acting Chairman: Well, senator, I don't think we should impute motives. Perhaps you would like to rephrase your question.

Senator Davey: Well, perhaps I won't ask that question. I have one other I would like to talk about. My last question is about page 5 and these negotiations we have been hearing so much about. I would like to quote what you have to say there. You say:

Negotiations, discussions and studies which ACA understands are being conducted between the Governments of Canada and the United States should be completed and a resolution of the matters at issue including the tax provisions of Bill C-58 should be achieved.

I would like to know where the ACA's understanding on this matter comes from.

Mr. Blakely: Mr. Chairman, I read some of this in the Senate transcript of the Hon. Mr. Faulkner's remarks, I believe.

The Acting Chairman: To this committee?

Mr. Blakely: To this committee.

Senator Davey: So the only understanding you have is from reading the Senate transcript?

Mr. Blakely: Yes; we have no knowledge.

Senator Davey: Is the CRTC involved in these discussions, as far as you know?

Mr. Blakely: Do you mean the international discussions?

Senator Davey: No; the discussions you refer to at the bottom of page 5, number 3?

Mr. Blakely: I would have no idea, Mr. Chairman.

Senator Davey: But I think one of the witnesses, or perhaps all of you, commended the work of the CRTC generally. Is that a fair statement? Did you not?

Mr. Blakely: Agreed.

Senator Davey: Mr. Chairman, as a result of the session yesterday and the discussions with respect to these negotiations which are referred to, I contacted the CRTC and asked for some clarification. I have received a four-page letter from Mr. Boyle, of which I have copies for members of the committee. Perhaps you will allow me to read the opening and last paragraphs...

The Acting Chairman: May I suggest that if you intend to produce this letter, with the consent of the committee, of course, that we have the whole letter in front of us?

Senator Davey: I would be delighted to let the letter speak for itself.

The Acting Chairman: Does the committee agree? It is a letter from Mr. Boyle of the CRTC.

Senator Lang: It is not a "regrettable intrusion", Mr. Chairman?

The Acting Chairman: It is only with the consent of the committee.

Mr. Wayne McCracken, Legal Counsel, Association of Canadian Advertisers: Mr. Chairman, if our delegation is to be asked questions referring to this letter, assuming the committee consents to its introduction, may we have a copy to review first, please?

Senator Davey: I have no other questions, Mr. Chairman.

The Acting Chairman: May we have time to look at this letter?

Senator Davey: Sure.

Senator Lang: Mr. Chairman, perhaps this letter could be appended to the proceedings.

The Acting Chairman: I was about to ask honourable senators if they are prepared to admit this letter? It arises really in reply to matters which arose yesterday, and it seems to me that it should form part of the record. Is that agreed?

Hon. Senators: Agreed.

(Text of letter follows:)

Canadian Radio-Television and
Telecommunications Commission
Chairman

June 9th, 1976.

Senator Keith Davey,
R. 273-S,
The Senate,
Ottawa, Canada.

Dear Senator Davey:

In response to your specific request for information with respect to the involvement of the members of the Commission and its staff in discussions with U.S. border representatives or U.S. government officials on Bill C-58 and commercial deletion, I believe that the following points are relevant and will be of interest to the members of the Senate Committee.

1. The members of the Commission and its staff have been involved for some time in deliberations and discussions both with other Canadian officials and U.S. government representatives with respect to the Commission's policy on commercial deletion.

The Commission first introduced its policy of commercial deletion as a condition of licence in December 1972 relating to the operations of two cable television companies in Calgary, Alberta. Since that time the United States government and representatives of U.S. border stations have made frequent representations about the implications of that Calgary decision and the CRTC policy of commercial deletion.

In response to those representations and a further formal request by the United States State Department, a meeting was arranged between Canadian and U.S. officials to discuss commercial deletion. It was held in Ottawa in January of 1976. That meeting was held for the exclusive purpose of receiving U.S.

representations on the implications of the policy of commercial deletion.

2. I believe it important that it be fully understood that it was never intended that the discussions between Canadian and U.S. officials in January of this year be on the subject of Bill C-58. In response to a single representation on that issue by U.S. representatives, Canadian officials present quite properly took the position that they had no mandate to discuss a bill (Bill C-58) that was before the Canadian Parliament. In fact U.S. representatives at that meeting accepted without further comment that they could not expect officials to enter into consultation on any of the provisions of Bill C-58.

At the conclusion of the January meeting it was agreed that Canadian government representatives would receive representations from U.S. authorities on any alternative means for achieving the same objectives which govern the policy on commercial deletion.

On March 18th, 1976 Commission representatives met with a delegation representing U.S. border television stations. The meeting in March was held to consider a specific U.S. proposal. The Commission had undertaken to hear the proposal without commenting on its validity and to report to other federal departments and agencies on the conversations. In response to an indication by the U.S. representatives that they would be making no public comment nor would they disclose the proposal to the press, the Commission undertook to respect that confidentiality.

It should be made clear that the Commission is more than willing to make available the contents of that proposal and has never requested that it remain privileged or confidential under any circumstances. In responding to inquiries about the U.S. proposal, Commission representatives have indicated that they have felt bound to respect the wishes of the U.S. representatives and have encouraged inquirers to obtain information on the proposal from the originators—the U.S. border station representatives. If the concurrence and agreement of the originators of the document is received, the Commission will be more than happy to disclose the proposal.

3. It should be noted, therefore, that the only involvement of Commission staff or members with any aspect of Bill C-58 was with the single reference in the January 13th meeting with U.S. representatives. In addition, the members of the Senate Committee should know that one of the pre-conditions established by the U.S. border television representatives for acceptance of their proposal presented in March of this year was that the broadcasting portion of Bill C-58 not be implemented. The proposal presented to the Commission in March 1976 and the minutes of the meeting have been transmitted to all other government departments and agencies involved as the

Commission undertook to do. The Commission has never reacted nor discussed the proposal further because of the pre-condition with respect to Bill C-58. The Commission naturally assumed that consideration of that pre-condition was obviously outside its mandate and jurisdiction as requiring direct involvement in the legislative process.

5. In addition to the Commission's involvement in these formal discussions on *commercial deletion*, the Commission has discussed informally with U.S. representatives and Canadian lawyers, representing U.S. border stations, aspects of the commercial deletion policy. In fact representatives of the Buffalo stations appeared as intervenors at the Commission's public hearing in Toronto on November 26th, 1973 in opposition to any proposal for the implementation of commercial deletion as a condition of licence with respect to Rogers Cable systems in Toronto. The Commission provided every opportunity for the Buffalo representatives to make their views known on this issue. The Executive Committee of the Commission met with the owners and management of KVOS Bellingham several years ago to discuss at length a proposal by that station as an alternative to the Commission's policy on commercial deletion.

I hope that this information responds to your request. If there is any further elaboration required by the members of the Committee with respect to these important issues, the Commission members and staff would be happy to provide details.

I should note for your information that in 1971 the Commission recommended to the Government that the provisions of the Income Tax Act should be amended in order to offset the heavy financial involvement of U.S. border stations in the Canadian broadcasting system. The Commission continues to support the broadcasting aspects of Bill C-58—the legislative proposal that is presently before the Senate Committee, and considers the legislation vital for the continued development of the Canadian broadcasting system.

Yours sincerely,

(Signed) Harry J. Boyle.
J. M. Shoemaker.

The Acting Chairman: Senator Davey?

Senator Davey: I have no other questions. I only raised this because the ACA made a point of saying it.

The Acting Chairman: Are there further questions? Mr. Counsel, have you anything you wish to say?

Mr. McCracken: No, thank you, Mr. Chairman.

The Acting Chairman: Are there further questions? Gentlemen, thank you very much for your presentation.

Mr. Blakely: Thank you, Mr. Chairman.

CANADA
1976

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Government
Publications



FIRST SESSION—THIRTIETH PARLIAMENT
1974-75-76

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
**BANKING, TRADE AND
COMMERCE**

The Honourable SALTER A. HAYDEN, *Chairman*

Issue No. 92

THURSDAY, JUNE 10, 1976

Tenth Proceedings on:
“Canadian Textile Problems”

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Austin	Lafond
Barrow	Laird
Beaubien	Lang
Buckwold	Macnaughton
Connolly	Manning
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
*Flynn	Smith
Haig	(Colchester)
Hayden	Sullivan
Hays	Walker—(20)

Ex officio members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, May 27, 1975:

Pursuant to the Order of the Day, the Senate resumed the debate on the inquiry of the Honourable Senator Desruisseaux calling the attention of the Senate to Canadian textile problems.

After debate,

The Honourable Senator Asselin, P.C., moved seconded by the Honourable Senator Choquette, that the subject-matter of the inquiry be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Thursday, June 10, 1976
(125)

Pursuant to notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 10:20 a.m.

SUBJECT: "Canadian Textile Problems".

Present: The Honourable Senators Hayden, (*Chairman*), Cook, Flynn, Haig, Lafond, Laird, Macnaughton, Manning, Molson, Sullivan and Walker. (11)

Present, not of the Committee: The Honourable Senator Bourget. (1)

Witnesses:

Mr. J. I. Armstrong, President, Canadian Textiles Institute; and

Mr. F. P. Brady, Vice-President and General Counsel, Dominion Textile Limited.

Following the statement made by Mr. Armstrong, the Chairman then suggested that a sub-Committee be constituted to consider the action to be taken by the Committee with respect to Bill C-58.

Following discussion, it was *Agreed* that a sub-Committee be constituted as follows:

The Honourable Senators Hayden (*Chairman*), Cook, Desruisseaux, Flynn, Lang, and Macnaughton.

At 11:35 a.m., the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

CORRECTION:

Mr. Keith G. Dixon, Executive Vice-President of the Canadian Importers Association, was incorrectly identified as Mr. Dickson in Issue No. 90, dated June 3, 1976.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Thursday, June 10, 1976

The Standing Senate Committee on Banking, Trade and Commerce met this day at 10:20 a.m. to give consideration to Canadian textile problems.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Mr. Armstrong, I take it you heard the evidence with which you are going to deal.

Mr. J. I. Armstrong, President, Canadian Textiles Institute: Yes.

The Chairman: Would you proceed, then, please?

Mr. Armstrong: Mr. Chairman, honourable senators, events have certainly not stood still since the minister, the Honourable Mr. Jamieson, and his officials appeared before you on April 28. It would perhaps be helpful if I were to bring you up-to-date on some of the more important developments that have taken place since that time. You will recall that the minister, during those proceedings on April 28, announced the formation of an ad hoc committee composed of representatives of the apparel and textile industries with certain government representatives. The ad hoc committee announced by the minister on April 28 met in Ottawa on May 10 and I understand that a meeting is scheduled for June 14.

In the meantime the industry members of the committee are meeting frequently to further develop and refine the details of the proposals which both the textile and apparel industries believe to be essential if these industries are to survive in Canada in anything like their present form.

It is still too early to say whether the recommendations to come from the committee, hopefully by the end of the month, will be realistic and forthright in terms of what is necessary to correct the malaise in the industry—a malaise which has been described to you in great detail during the past months. I hope the recommendations are forthright and vigorous because I can assure you that the industry which I represent, and I believe that the same statement is applicable to the apparel industry, is now playing for keeps and is fully convinced that the time for a cosmetic approach to its international trade problems is long past. There comes a time during a long decline in the fortunes of an industry when bankruptcies, mill closings and layoffs accelerate unless steps are taken promptly to reverse the decline. We believe that this time has now arrived. I know the management in our industry have been patient in the extreme and the decisions they will have to make over the next several months will be important ones. I have chosen my words carefully and I would not like any misconceptions to prevail as to the real nature and character of the decisions that we believe must be made by government and the urgency and timeframe within which they must be made. We have reached a critical point in the long history of our industry in Canada.

I had started to review the significant events since April 28 and I referred to the first of these, the minister's ad hoc committee. The second point which I wish to draw to your attention is the continued deterioration of conditions in the industry since the end of April. You will recall that during the proceedings of the committee on February 18 Mr. Newall, speaking for Du Pont of Canada, announced that its new \$50 million polyester filament facility at Coteau du Lac would be completed and would start up this fall. Just six weeks later on May 3 the company announced that while the plant would be completed as planned the start-up of the new plant would be delayed until some unknown future date. The reasons for that decision are set out in the company's press release from which I would like to quote:

The delay in the opening of our polyester facility at Coteau du Lac is caused primarily by the very high volumes of imports of polyester garments, fabrics and yarn. This problem has recently been compounded by a softening of the double-knit market in North America which has led to surplus American yarn spilling over into Canada at distress prices. In total, foreign sources now supply between 50 and 60 per cent of the Canadian market for polyester textile yarn...

We will proceed to finish construction of our Coteau plant. When completed, it will be one of the most efficient and modern polyester production facilities in the world and when operational is expected to employ 325 people. It will be able to deal effectively with normal competition from anywhere in the world. To be viable, however, this facility must have a reasonable volume of business in Canada. Under current conditions such volume is questionable.

It was to deal with precisely today's type of domestic market disruption that the Federal government's Textile Policy and the International Multi Fibre Arrangement negotiated under the General Agreement on Tariffs and Trade were put in place. Our decision to build at Coteau was in part predicated on their effective implementation in Canada.

I know it to be the judgment of Du Pont, based on their worldwide experience, that their new plant would have been able to thrive in virtually any other textile market in the world. That is a sad commentary on the announced objectives of the government just six years ago.

At the same time the company also announced a layoff which began on May 8 of some 125 employees in its nylon and polyester fibre operations at Kingston and the cancellation of plans to hire approximately 200 students this summer at its Kingston plant. Reference to this layoff was made in very moving terms a week ago by Mr. Lutz of the Kingston Independent Nylon Workers Union. As he stated to you, "It is a crisis situation for us as it represents the livelihoods of all our members."

On May 19 Astro Industries of Hawkesbury, Ontario, a division of Vendome Textile Industries, announced the permanent shutdown of its operation. I read from the notice to employees issued by the company:

19th May 1976

To all employees:

It is with regret that we announce the permanent shutdown of Astro Industries Co. four weeks from today. There are several reasons for this regrettable decision. Foremost is the lack of the Canadian Government to grant sufficient protective tariffs to the textile industry. We have tried every avenue of endeavour to approach the government to make them aware of foreign imports and the damage they are doing to this industry. Second is the severe depressed conditions existing in today's market. It is therefore impossible for us to continue this operation without sustaining severe financial losses. Be assured that we have tried every possible means to continue this operation, and as some of you are probably aware, other texturizing companies have closed last year and the early part of this year.

Two days later on May 21 Versatile Knitting Co., a division of Courtaulds (Canada) Limited of Cornwall, Ontario, announced the closing of its Canadian production facilities effective July 16, 1976. Again I should like to read from the press release issued by the company:

The closure of its Canadian production facilities in Cornwall, Ontario, was announced today . . .

that is, May 21, 1976 . . .

by Versatile Knitting Company, a division of Courtaulds (Canada) Limited.

Production will cease on July 16, 1976, and will affect approximately 150 employees, some of whom have already been on layoff for several months. It has proved impossible to support a viable production operation, and large losses have been incurred and are still being incurred...

A spokesman for the Company said that its selling operation, based upon its Montreal Sales Office and warehouse facilities, would continue to service its customers.

That means, in effect, that Versatile Knitting Co. has now become an importer.

A week or so later on May 28 Riverside Yarns Limited announced the permanent closure of its plant in Cambridge, Ontario, with 150 employees and 15 staff affected. The reason in the announcement by the company was "massive imports." I am informed that the company is attempting to locate other jobs for its former employees through an Adjustment Assistance Reclassification Committee but has so far only succeeded in placing 45 persons with other local industry.

Now, there is more.

The consequences of these closures for the Canadian fibre producers have been described to you by the chief executive officers of both DuPont and Celanese.

A week ago, Mr. Morty Kape, representing the Canadian Textile Importers Association, speaking about the double knit business, said, "The demand for double knit never reached the potential expected, and is on a steady decline globally." I have no quarrel at all with that statement, but

what Mr. Kape omitted to say was that imports of both the fabric and the garments using that fabric are maintaining a strong position in the Canadian market. In fact all low cost countries increased their exports of double knit fabrics to Canada from just over 4 million pounds in 1974 to just over 6 million pounds in 1975, an increase of 50 per cent. The whole decline in the market has fallen on the Canadian industry, which has lost some 6 million pounds of production since 1973. This loss represents 140 double knit machines and over 200 people working at full capacity.

The situation continues to deteriorate, at a very accelerating pace, it seems to me, and it is against the background on the conditions I have just described that I should like to offer a few comments on the submission filed with you a week ago by representatives of certain of the Canadians importers. It is interesting to note, by the way, that you do not appear to have received any submission from the retail associations such as the Retail Federation of Canada, whose members are very large importers. I can only conclude that they do not feel in any way threatened by the submission that we and the unions have filled with you, and I make the same comment with regard to the Consumers' Association of Canada.

And now, Mr. Chairman, a few comments on the submission of the Canadian Importers Association.

In the first place I should like to compliment my friend, Mr. Keith Dixon, on the excellent presentation he made to you a week ago today. However, I suggest to Keith that if his members felt the same sense of crisis about the present situation as mine do, his brief would have been in your hands many months ago, and would not have been received only on the afternoon of June 2. After all, these proceedings have been public knowledge for over a year and the Canadian Importers Association is an old, well established and well staffed organization. Mr. Corlett, as you know, is also well versed in these matters; yet their brief arrived just last week.

I need not say too much about the brief in view of the many excellent questions put to Mr. Dixon and Mr. Welke by Senator Cook and other members of the committee. I should note, however, that while Mr. Dixon has a background in the industry, as he described in his submission, and was well and favourably known to me and other members of the industry during the war and immediate post-war years, he has unfortunately lost touch with the basic facts relating to the industry. To quote from pages 3 and 4 of his submission, he states:

Canada, unlike many industrialized and developing nations, has virtually no domestic access to the principal fibres used in textile cloth production . . . and in the so-called miracle fibres production is reportedly confined to those related to the nylon family. Other newer synthetic fibres such as the acrylics, which have their origins from petroleum feed stocks, are almost entirely imported.

This is just so much rubbish, as I am sure you all know, and I should like to record, for the record, that DuPont has produced "Orlon" acrylic fibre in Canada for over 20 years. Our other mills and DuPont produce Dacron polyester, fortrel polyester, spandex lycra fibre, acetate, triacetate, viscose, polypropylene and almost all, I would think, of the other fibres used in the textile and apparel industries.

Reading further from Mr. Dixon's brief on behalf of the Canadian Importers' Association, he stated:

In our view there are far too many firms manufacturing far too many products for the small Canadian market.

As Mr. Dixon well knows, there are many fewer these past weeks, and the numbers are declining rapidly.

He refers to the fact that adequate protection has made the industry indifferent to the potential for a reduction on unit cost through exporting. Our industry, the apparel industry, export between \$200 million and \$300 million a year, which is not an insignificant sum; but to extend those exports any industry requires a solid domestic base on which to operate. We do not have that base in the textile and apparel industries in Canada. I think we have done well to maintain our exports at the level of \$200 million to \$300 million, and until we get a more solid domestic base that is not likely to increase.

Mr. Dixon states further on in his brief:

Canadians visiting abroad continue to be astonished at the variety of textile products to which they are denied access in Canada at reasonable prices.

I am certainly not one of those. I am a good shopper and I enjoy shopping. I spent two weeks in California recently, and much of that time on shopping malls and stores and boutiques throughout California. I certainly did not find a variety that was not available in Canada, and in fact much less variety. I saw no Korean suits, for example, in any kind of store, and I searched many with the object of finding these suits.

I have one further comment, perhaps, on Mr. Dixon's brief. He said:

Our association has consistently maintained that the enactment of Bill C-215...

And that is the Textile and Clothing Board Act.

... has stretched to the limit if not beyond Canada's obligations under the GATT and there has already been evidence of the adverse effects on Canada's export trade as a consequence of the implementation by the federal government of recommendations on restraint made by the Textile and Clothing Board.

I would like to ask Mr. Dixon what evidence he has for that statement. There is none in his brief. Canada's posture in Geneva is recognized as one of zealous pursuit of trade liberalization. We are looked upon in Geneva as the guardian of the world's trading morals, or we are holding ourselves out to be such, and to say that our steps in Geneva are being adversely affected by government recommendations following recommendations of the Textile and Clothing Board, I think, is overstating the situation in the extreme.

I do not think there are any further points in the brief itself on which I need to comment. As to Mr. Dixon's verbal evidence, there are one or two points of a minor character that I would like to mention. He stated to you last week, for example, that monitoring or surveillance of imports was as effective a deterrent to this industry as a formal quota. This is nonsense, and I suggest that the threat of quotas which he sees in a surveillance system is surely not comparable to the serious injury caused to Canadian production and employment by imports, and I draw to your attention, Mr. Chairman, the fact that surveillance does not stretch our obligations under the GATT, as alleged, and is a normal practice followed by all the countries in the EEC.

Mr. Dixon further stated that Canada has been more vigorous in its restraints in the last 18 months. I merely note that 6 per cent of our imports are now subject to some form of quantitative restraint as compared with 15 per cent a few years ago.

On a more positive note we took much comfort in Mr. Dixon's stated belief that we should have a reasonable—indeed, to use that difficult word, “substantial”—share of the Canadian market. I also welcomed his generous comments about two of our member companies, Kenwood Mills Ltd., of Arnprior, and Harding Carpets Ltd., of Brantford. These companies were used by Mr. Dixon as examples of the type of products with a high skill content which we should produce in Canada.

Now, as far as Kenwood Mills is concerned, it is a first-class company and I think its name is known to all of you. However, Kenwood Mills is basically a producer of industrial papermakers' felts, and their production of blankets, I believe, has been declining and there has been a rapid takeover in the blanket business by acrylic blankets and blankets not of the type Mr. Dixon was referring to. In any event, this industry certainly does not survive on the production of blankets by companies, good as they are, such as Kenwood. As far as the carpet industry is concerned, they have as yet received no massive threat of imports from the Far East. We don't know that that is not going to come; and if it does, our carpet industry will suffer the same serious damage as the rest of the industry has suffered.

One final word, with no evidence to support the statements made there is constant reference in the Importers' brief and Mr. Dixon's statements to the cost of protection to the consumer. This has been coming up repeatedly during the proceedings, and I do not want to be accused of using figures loosely, so the figures I am going to use are for illustrative purposes only. We have had to make a lot of assumptions in them, but we think the assumptions are conservative and valid; nevertheless they are assumptions. I have seen too many figures in the newspapers produced by the Canadian Importers Association, and perhaps you saw them too. For example, one statement said that the cost to the Canadian consumer was \$1 million a day due to tariffs and controls of one kind or another. There was another statement that the cost of the shirt quota to the Canadian consumer was something in the region of \$25,000 a day. Those figures have no basis in fact. But I do not want the figures I give to be treated in the same way as I have treated the ones appearing in the press from the importers. This is an illustration only.

What we have done is to assume that there was complete unilateral free trade in Canada; there would be no tariffs whatever on textiles or clothing; there would be no quotas or export restraints of any kind. We have assumed that if that were the case then employment in the primary industry would drop to, say, 40,000 people from 100,000 which we now have, and that in the first year. And we are saying that employment in the apparel industry would drop by, say, 50 per cent. We have then calculated the loss to the Canadian government of income taxes in both the primary and apparel industries, and we say that the income tax loss would be in the neighbourhood of \$80 million. Then we say that corporate income tax loss would be some \$33 million. Then we calculate the unemployment insurance, assuming half of the displaced workers were unable to find work and claimed unemployment insurance benefits for an average of six months. Those costs are \$138 million. So that the

total tax loss, plus the loss to the government because of unemployment insurance, would come to some quarter of a billion dollars. So then we take a multiplier factor of two to account for supplying industries, families and so on, and we say that the total loss attributable to these factors is some \$754 million. Then we say that cost continues on a declining rate over five years. Then we come to a final number—and I say again that this is only for illustration—of something in the neighbourhood of \$3 billion. This is the cost to the Canadian consumer. It is really a cost to the Canadian government, but this is the Canadian consumer. It would be some \$3 billion if we had unilateral free trade in Canada.

I have made one further assumption, of course, in this calculation and that is that importers, wholesalers and retailers will pass on to the consumer the entire saving by the reduction of the tariff.

Now I would like to move, if I may, briefly to the submission of the Canadian Textile Importers Association. This brief impressed me largely as a statement of principle with little or no data in it and no evidence to support the statements made. And really, you know, to quote the Turgenev Royal Commission Report of 1938 in support of a statement about tariff rates is really not very helpful and is damaging, in my view, to the credibility of the association. Surely the author must realize that seven or eight multilateral tariff negotiations have taken place under the auspices of the GATT since the Honourable Mr. Justice Turgenev wrote his report, and that current rates of duty bear no resemblance whatsoever to those in effect 38 years ago.

Then in that submission we have the same worn-out clichés and myths about quotas limiting consumers' choice, tariff reductions reducing incentives for effective production, and possible retaliation by developing countries. There is no reference at all to the one and a half billion dollars of annual textile and clothing imports to Canada which, as we noted to you in earlier proceedings, was the equivalent of about 100 yards for every man, woman and child in this country. There was no reference to the effect of massive imports on investments which must be made to achieve efficient productivity levels and the fact that Canada has an unfavourable balance of trade with virtually all of the low-cost countries with which we trade.

Reliance is placed by the author of that submission on the share of market statistics expressed in dollar or value terms. To be perfectly fair, I don't think he realized the extent of the pyramiding numbers on the shipment side of the equation when dollar terms are used.

May I explain that? Import data in terms of dollars is readily available and is published by Statistics Canada and is thoroughly credible. In the Canadian shipment production, however, the numbers are pyramided. For example, fibre production by DuPont is counted as a dollar value of shipments by DuPont. That fibre is taken by a spinning mill which spins it into yarn and ships that yarn, and the dollar value of that yarn shipment including the fibre is counted again. The production of the weaver or the knitter of the yarn of the fabric counts in the sales of the fibre and the yarn which has already been counted in the equation, and then, of course, the fourth time the numbers are counted is when the apparel industry ships its products. So there is pyramiding, and dollar terms and values are not a very sound way of presenting the picture of the Canadian market for any product, and certainly not for textiles.

As you know, we do not spin or weave dollars; we spin or weave fabrics and yarns. But even with the limitations I have mentioned on the pyramiding of figures in dollar terms, there has been a steadily declining share in the Canadian market served by the industry, even if you use dollar terms. It has been going down.

Now there are one or two points in the brief to which I would like to refer you. On page 7 the brief states:

In fact, for consumers in low-wage brackets, the unemployed, pensioners and welfare recipients, there is an absolute need for low-price imports. They should not be penalized or exposed to additional hardships by being forced to purchase higher-priced merchandise which is not within their income-range.

We have never suggested, as you well know, that there should be any roll-back of current overall level of imports into Canada.

Then on page 8 the brief states:

Lead-time required by importers is much greater than that of the Canadian producers thereby placing domestic manufacturers in a much better position to offer repeats and any special colours that may be in demand.

Surely, they would not expect an industry to survive in Canada on the production of repeat business and special colours? There is no way any industry can survive under those circumstances.

Then I find the statement at the top of page 11 of their brief to be rather a desperation statement when he says:

An in-depth study should be undertaken to determine the actual operational and financial conditions of domestic and textile clothing producers.

Because of that statement we have prepared and I have copies for members of the committee, a statement showing the percentage return on sales and investments of the textile and clothing industry on the one hand and all manufacturing on the other for the years from 1965 through the third quarter of 1975. Just to take the last year, the return on sales before tax in the textile and clothing industry is 43 per cent less than the return on manufacturing generally. The return on investment is 40.6 per cent less in the textile and clothing industry than in manufacturing generally.

I have just one more comment before leaving the brief of the Textile Importers Association, relating to table 7 which is annexed to their brief. This is a table showing the distribution of the Canadian market between domestic shipments and imports in terms of dollars. I would like to draw to the attention of the committee that between the years 1970 and 1975 domestic shipments increased 57 per cent in dollar terms. Between the same years, 1970 and 1975, imports more than tripled. These are the statistics attached to the brief submitted by the Canadian Textile Importers' Association. I do not think any comment is necessary with respect to the brief filed with you by the CSN labour union. That was a revolutionary document and I propose to treat it as such.

The Chairman: Mr. Armstrong, what kind of organization is the Canadian Textiles Institute?

Mr. Armstrong: The Canadian Textiles Institute, Mr. Chairman, is a trade association representing the Canadian primary textile industry. It has been in existence for some 60 years and represents the fibre producers, spinners

and weavers in Canada. Our customers are the apparel industry and industrial users of industrial products, such as tire fabric.

The Chairman: So they would be in a position by reference to their members to get accurate figures.

Mr. Armstrong: Oh, yes; these figures that I have tabled with you with respect to sales and investment originated really with the Corporation Financial Statistics issued by Statistics Canada.

The CSD brief of 300 pages which was submitted to you by the union represented by Mr. Dalpé was an excellent brief, in our judgment and he made an excellent presentation to you. I believe it would be interesting for you to know that this is a relatively new union and is going through its growing pains. This union felt the situation to be sufficiently serious to have spent, I understand, something in the order of \$20,000 to produce that brief and present it to you in both the French and English languages. In my opinion that shows the importance with which that group of workers views the situation facing the industry.

Now Mr. Chairman, with your permission, I propose to turn to a question that has been raised several times during the proceedings. That is whether or not an amendment to the Textile and Clothing Board Act or other legislation would be necessary to give effect to the recommendation we have made to you that comprehensive restraints with designated low-cost suppliers should replace the present item-by-item, piecemeal approach to bilateral agreements.

Mr. Brady and I have addressed ourselves to this question and concluded that no legislative change is necessary from a strictly legal point of view. The reasons on which we have based our conclusions are relatively simple.

I should like to read to you the operative section, 9(b), of the Textile and Clothing Board Act:

9. The Board, with respect to the importation of any textile and clothing goods,

(b) shall, on receipt of a written request from the Minister, conduct an inquiry in order to determine whether the textile and clothing goods that are the subject of the inquiry are being imported at such prices, in such quantities and under such conditions as to cause or threaten serious injury to the production in Canada of any textile and clothing goods.

Having read that, I now turn to the International Textile Arrangement, which comprises the international rules governing trade in textiles. I refer to Article 4 of the International Textile Arrangement, where it provides that participating countries may conclude bilateral agreements on mutually acceptable terms in order to eliminate real risk of market disruption as defined in Annex A. "Market disruption" is defined in Annex A and I turn to Annex A and find that the determination of a situation of market disruption as referred to in this arrangement shall be based on the existence of serious damage to domestic producers or actual threat thereof.

On the one hand, we have our own legislation that says that the board may recommend special measures of protection for any goods which are the subject of an inquiry. The International Textile Arrangement uses the term "real risk of market disruption". Now, in our judgment the term "real risk of market disruption" is narrower than and embraced within the terms in the Textile and Clothing

Board Act, which are cause or threaten serious injury to the production in Canada of any textile and clothing goods.

Having reached the conclusion that in our judgment no amendment to the Textile and Clothing Board Act would be necessary to give effect to the recommendations we have made to the committee, we are mindful of the fact that not every official in Ottawa would necessarily agree with our opinion. So we have taken out some insurance and have drafted a relatively simple series of amendments to the Textile and Clothing Board Act which would likely remove any basis for argument—we have in effect used three words where one would do. I would like to table these with Mr. Jackson, with sufficient copies for members of the committee, should it be deemed necessary by the Department of Justice or anyone else that changes in the current legislation are necessary. Having reached the conclusion, of course, that no legislation changes are necessary we had in mind Mr. Bennett's statement to you during the proceedings on March 10. Mr. Bennett, you will recall, was chairman of the Textile and Clothing Board when he said that the Board's functions could be enlarged within the present act to do more things. And now, prior to my concluding statement I should like to mention two subjects that concern me.

The first relates to polyester yarn, on which the Textile and Clothing Board submitted recommendations to the minister a month, or more, ago. The board's report has not yet been made public and no announcement of the government's intention with respect to it has been forthcoming, and I do not believe this to be the fact—the board has followed its previous recommendations and has, in fact, recommended the imposition of a surtax on below-cost imports of polyester yarn into Canada and if, for reasons best known to government, the board's recommendation has not been accepted, we should be so informed, and we should have been informed before now. On this point of government policy with respect to imports from the United States I should like to draw to the committee's attention a Canadian Press report which appeared yesterday in the *Montreal Gazette*. The report states that the United States "plans to announce Friday (i.e. tomorrow) the imposition of special quotas restricting the importation of specialty steel from Canada." And this in the face of the fact that the United States apparently ships to Canada three times the volume of specialty steel than Canada exports to the United States.

The release goes on to say:

... the quotas against Canada will be announced simultaneously with the signing of a U.S.-Japan "orderly marketing agreement" (OMA) and the imposition of other quotas on other countries...

Canada, in 1974, exported roughly \$13 million in specialty steels to the U.S....

In that same year, Canada imported \$42 million in similar products from the U.S....

Trade experts here...

and this is datelined Washington...

said it is unusual for one country to impose quotas on imports from a country in a deficit trading position, thus inviting the possibility of retaliation.

President Ford told a campaign audience in Middletown, Ohio, last Monday that he had signed documents to restrict the amount of specialty steels that foreign producers can sell in competition with domestic production.

The release says that the orderly marketing agreement with Japan sets up:

... quotas for other countries, such as Canada, Sweden and the European Economic Community.

The U.S. International Trade Commission (ITC) has ruled that imports are causing significant damage to the domestic industry and asked quotas lasting five years or until the domestic industry recovered from high unemployment and depressed operating levels.

That is just one more, and very recent, example of the vigorous manner in which the United States defends the interests of its domestic industry. It is really hard to understand why there should be such a difference.

The second point which concerns me very much is the present status of the International Textile Arrangement and the fact, as reported to you by the chairman last week, that nothing has yet been done to develop a Canadian position with regard to the renewal of that arrangement. The arrangement provides in Article 10, section 5 that "The Committee (meaning the representatives of government) shall meet not later than one year before the expiry of this Arrangement in order to consider whether the Arrangement should be extended, modified or discontinued." As the arrangement expires on December 31, 1977 the meeting to which I have just referred must be held not later than this fall.

With a group of chief executive officers representing the Canadian industry I met in New York last Sunday and Monday with a similar group from the United States. Policies in that country with regard to renewal of the arrangement seem to be well in place and surprise was expressed by the Americans that nothing appeared to have yet been done in Canada.

When the minister appeared before you on April 28th he expressed the belief that some form of ongoing arrangement would likely be negotiated. With respect, this, in our view, is not sufficient.

I should now like to read to you the protocol relating to the reservation attached by the Government of Canada to its acceptance of the long-term arrangement on cotton textiles negotiated in 1961/62.

The Government of Canada, in accordance with the procedure which was agreed by the Cotton Textiles Committee at its meeting from 29 January to 9 February 1962 and which is set out in paragraphs 32 and 33 of the Record of Understandings reached at that meeting, has attached a reservation to its acceptance of this Arrangement in the following terms:

"In accordance with the procedure agreed by the Cotton Textiles Committee, the Canadian Government enters a reservation to the effect that Canada, as a country which complies with the criteria:

- (i) that in the decade preceding the entry into force of the Arrangement it had experienced a substantial contraction in its cotton textile industry, and
- (ii) that it was importing a substantial volume of cotton textiles, in particular from the less-developed countries and territories and Japan, in relation to its own production of cotton textiles,

accepts no obligation to increase automatically, under the provisions of paragraphs 2 and 3 of Annex B of the Arrangement, access to the Canadian market for each item subject to restraint...

The other parties to this Arrangement have accepted the Canadian reservation and have agreed that the reservation should be included in a Protocol annexed to this Agreement.

We believe that the current multi fibre Arrangement, which succeeded that on Cotton, is essential to both the developing and developed nations and should, without any question, be renewed.

We also believe that a Protocol, similar to the one which I have just read, should be entered into any extension of the ITA to be signed by Canada.

It is late in the day and time that Canada developed a position on the Arrangement in consultation with representatives of the textile and apparel industries.

And now, Mr. Chairman, I should like to speak, by way of summation, from a brief statement which I prepared a week ago in the event that time permitted me to appear last Wednesday.

Two things concern me. From some—just some—of what I hear and read in public discussions about the present threat of textile imports, there appear to be misleading ideas about the relationship between the Canadian primary textile and clothing industries on the one hand and the developing nations that are trying to ship to this market on the other. And there appear equally simplistic expressions of fear that the Canadian consumer will suffer drastically from any action taken to ease the present threat of imports.

If such misleading concepts are allowed to form the basis of government decisions in this matter some entirely predictable results will ensue.

The current loss of employment in a very valuable Canadian industry can only continue and accelerate. Canadian jobs will be sacrificed even more than they have been already, at a time when unemployment in Canada is very high and the government is constantly asking this and other industries to find new jobs for Canadians. It is significant that a large proportion of textile jobs are in non-metropolitan areas, small or smallish towns and cities, where chances for new jobs are minimal.

A second result is that new investment, badly needed to provide employment and to keep the industry competitive and viable, will just not be forthcoming. No investor, large or small, will put savings into an industrial enterprise that is steadily being abandoned by government action, or inaction.

Theoreticians may urge that Canada should not try to compete against the "natural" advantages of cheap-labor countries. The truth is that Canada with its high living standard and its enormous cost of government cannot compete with most nations of the world in the manufacture of most goods. We simply have a high-cost economy.

On the basis of such theories Canada should give up not only the manufacture of textiles but the manufacture of most of our products. Who then would provide the jobs for millions of Canadians? Who would support these people financially and what would replace the dignity of having a useful, rewarding job? Where would such people get the money to buy even cheap imports? Above all, who would pay the taxes to support our government programs and offer aid to developing nations?

The industry's position has been made clear but I fear it needs repeating and underlining.

The Canadian textile and clothing industries favour assistance to developing nations in their efforts to build their industries and employ their people. This is the purpose of the International Textile Arrangement under GATT, and the arrangement, signed by more than 50 nations, including the developing countries, clearly states that this can only be done on an orderly basis to avoid destruction of home industries in the already-developed nations.

Canada is far and away the most generous of developed nations in giving new nations access to its home market. Moreover we are throttling the opportunity for development of Canada's natural resource possibilities in the matter of man-made fibres that are based on the petrochemical industry.

What this industry says is that under the rules and application of our national Textile Policy Canada has gone overboard. This industry has a bare 46 per cent of its own market left on which to survive and the present course will continue to whittle away at that. This is not generosity. This is self-destruction. An industry that has proved its worth to the Canadian economy and its fairness to the Canadian consumer is being chopped to pieces.

On that point I was asked by Senator Cook, during proceedings some weeks ago, what percentage of Canadian textiles and apparel existed in world production. At the time I answered off the top of my head that it was about 2 per cent or 3 per cent. We have since had an opportunity to examine the figures, and in fact Canada's production, as a percentage of world production, is .94 per cent, or just under 1 per cent.

Divided among all the other signatory nations of the International Textile Arrangement this is hardly the scope of trade that is going to evoke hot-tempered reprisals by others.

This industry is not asking for the banning of all imports; far from it; indeed not even for a rolling back in total of the present high levels. There is steady growth in the Canadian market. If imports are held close to their present levels, the continuing growth of the market will allow this industry to recover its strength, fill up those lost jobs and, hopefully, go on to provide more jobs. Over a period of years such a program would gradually regain a reasonable balance and Canada would still be continuing to help the developing nations while providing jobs at home.

This too is the key to dramatic assertions that the Canadian consumer will have to pay the bill. Imports from low-cost countries would still be available as they are today. The choice is wide, and for those consumers who seek special economy lines the choice will be available. In fact, any present advantage to be gained by having lower priced imports on Canadian shelves would be maintained just because Canadian goods were also available to keep foreign prices honest and competitive. In lines of production where in the past Canadian items have been driven off the market by imports, the historic evidence is that cheap imports do not stay cheap. Without home products to hold the line any product from any foreign land will rise to get the most it can from the consumer. Canadian products, particularly because of their long history of holding the price line, actually serve the consumer in this manner.

Mr. Chairman and honourable senators, when I first appeared before you on February 11, I expressed appreciation of your interest in the problems of our industry. I also

commented on the excellent perception and insight with which you have viewed our situation.

I have now attended nine proceedings of the committee. I would like to reiterate what I said earlier and to express to you our thanks for your courtesy in listening so attentively to the witnesses who have come before you during the past several weeks, and particularly, to use the chairman's expression, for having given up your "entitlement" by having been here last week.

One final word. I was delighted to hear the Chairman say a week ago that this committee intends to maintain a watching brief on the situation in the industry, and the results that will or will not come from the minister's *ad hoc* committee.

We could not ask for more. We appreciate your interest a great deal. Thank you, Mr. Chairman.

The Chairman: Is Mr. Brady going to say anything?

Mr. Frank Brady, Vice-President and General Counsel, Dominion Textiles: No, Mr. Chairman. Mr. Armstrong has so ably presented our position that I have nothing further to add at this point.

The Chairman: In that case, this may officially terminate our sittings at this time, but not necessarily so. It depends, I suppose, on whether a report is made by the *ad hoc* committee that the minister set up, and on what the nature of their report is. We may analyze that between now and the close of the session, and if we find that it is at substantial variance with the report we make, we may have something more to say. We merely called our report the first report, and there is no prohibition against another report, or further reports, on the events that have developed since that time.

Senator Cook: Are we going to ask when we might expect a report from the *ad hoc* committee?

The Chairman: I think we are entitled to it, because he was asked to give an estimate as to the time, and he said certainly by the end of June. The difficulty with the end of June is that that is supposed to be the date on which Parliament will recess, and therefore in the period of the recess there would not be any official action that we would be able to take, unless, conceivably, we could get permission from the Senate to sit during the period of the recess. This is not legislation that we are dealing with, of course; this is a study, or investigation. I will look into that and will talk to you further about it.

The other thing I wanted to say this time is that I would like to set up a subcommittee of this committee to work with me on a draft of a report on Bill C-58. This has been done before, and I could name some of the bills that have been dealt with in that fashion. You see, if you have five or six senators on the subcommittee you get a viewpoint, and while you may try to reflect what you think are the views of the members of the committee, the document is not final in form, and is subject to the approval of the committee; but it does divide the responsibility. I have found myself many times left in the position of being told to write the report. Now I am looking for a few shoulders that I can lean on and make assignments to.

I would suggest—and you can let me know what you have to say about my suggestions—that Senator Cook might be a member of the subcommittee.

Senator Cook: Agreed.

The Chairman: And Senator Macnaughton.

Senator Macnaughton: Agreed.

The Chairman: I have spoken to Senator Flynn, and he has said he would be glad to be on the subcommittee. I thought Senator Lang should also be a member, if he is willing. There is no doubt about his being able. I would like him as a member of the committee. That makes four so far, and I was thinking also of Senator Desruisseaux, together with the chairman, of course.

If we do it this way we can control the discussions, and whatever draft views are put on paper, so that they will not be released. This building, you know, is famous for leaks, and I am not referring solely to rainfall. I have tried proceeding both ways, and I think this is the way to circumscribe numbers, in the first place. If you have a full committee, you may sit *in camera* but that will not prevent senators who are not members of the committee from sitting in on its deliberations, since our rules provide for that, and in those circumstances all we can do is insist that the matter be treated in confidence. As to whether that would or would not happen, I am not taking any bets.

Is this approved?

Hon. senators: Agreed.

The Chairman: We will meet next Wednesday, when there may be one other witness on Bill C-58. I have not settled that yet. We may have something ready that we can discuss.

Senator Haig: When are we going to get the mock-up of *Time*?

The Chairman: I have given them to the clerk, Mr. Jackson, and I thought a copy of the mock-up and of the then current issue of *Time Inc.* would be delivered to each one of your offices and you would sign for it—then when I get it back later, I shall give you a receipt—because the committee yesterday approved of meeting the wishes of *Time Canada* that this be not given public distribution. So if that is agreeable, that is the way we will do it.

Hon. Senators: Agreed.

The Chairman: Then we will meet next Wednesday. The subcommittee we have set up will meet whenever it is convenient for them to meet, and we have a special adviser who has read all the material. As a matter of fact, I was delayed this morning because I was in conference with him. We are anticipating as much as we can, and we should have something for the subcommittee to look at and, maybe, the full committee. The risk of getting into the hands of the public at an early stage is one that we should try to avoid. Any further questions?

Senator Haig: I move that we adjourn.

The committee adjourned.



Government
Publications

FIRST SESSION—THIRTIETH PARLIAMENT

1974-76

THE SENATE OF CANADA

PROCEEDINGS OF THE

STANDING SENATE COMMITTEE ON

BANKING, TRADE AND COMMERCE

The Honourable SALTER A. HAYDEN, *Chairman*

Issue No. 93

WEDNESDAY, JUNE 16, 1976

Sixth Proceedings on Bill C-58 intituled:
“An Act to amend the Income Tax Act”

(Witnesses—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Austin	Lafond
Barrow	Laird
Beaubien	Lang
Buckwold	Macnaughton
Connolly	Manning
(<i>Ottawa West</i>)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
*Flynn	Smith
Haig	(<i>Colchester</i>)
Hayden	Sullivan
Hays	Walker—(20)

Ex officio members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, April 6, 1976.

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Davey, seconded by the Honourable Senator Lang, for the second reading of the Bill C-58, intituled: "An Act to amend the Income Tax Act".

After debate, and—

The question being put on the motion,

The Senate divided and the names being called they were taken down as follows:—

YEAS

The Honourable Senators

Argue	Lafond
Austin	Langlois
Benidickson	Lefrançois
Bourget	Lucier
Buckwold	Macnaughton
Cameron	McDonald
Carter	McElman
Cottreau	McGrand
Croll	Michaud
Davey	Molgat
Denis	Neiman
Duggan	Norrie
Eudes	Petten
Forsey	Riel
Fournier (<i>de Lanaudière</i>)	Riley
Fournier (<i>Restigouche-Gloucester</i>)	Robichaud
Giguère	Rowe
Godfrey	Smith (<i>Queens-Shelburne</i>)
Goldenberg	Sparrow
Graham	van Roggen—40.

NAYS

The Honourable Senators

Choquette	Macdonald
Cook	McIlraith
Desruisseaux	McNamara
Flynn	Phillips—9.
Grosart	

So it was resolved in the affirmative.

The Bill was then read the second time, on division.

The Honourable Senator Davey moved, seconded by the Honourable Senator Sparrow, that the Bill be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, June 16, 1976

(126)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m.

Subject: Bill C-58—"An Act to amend the Income Tax Act".

Present: The Honourable Senators Hayden, (*Chairman*), Austin, Barrow, Beaubien, Buckwold, Cook, Flynn, Haig, Lafond, Laird, Lang, Macnaughton, Manning, McIlraith, Molson, Perrault, Smith, (*Colchester*), and Walker. (18)

Present, not of the Committee: The Honourable Senators Davey, Everett and McElman. (3)

In Attendance: Mr. R. J. Cowling, Consultant to the Committee.

Witnesses:

Canadian Radio-Television Commission:

Mr. Harry J. Boyle, Chairman;

Mr. Réal Therrien, Commissioner;

Mr. J. M. Shoemaker, Executive Director, Policy Planning and Analysis;

Mr. C. C. Johnston, General Counsel; and

Mr. T. R. Hart, Special Advisor and Senior Broadcasting Consultant.

The Committee proceeded directly to the examination of the witnesses in furtherance of its study of the above subject.

During the discussion it was *Agreed* that "A PROPOSAL BY U.S. BORDER TELEVISION STATIONS"; "SUMMARY OF OTTAWA MEETING BETWEEN U.S. T.V. BROADCASTERS AND CRTC"; and the "COM-MUNIQUE" be printed as appendices "A", "B" and "C", respectively, to these proceedings.

At 11:45 a.m., the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, June 16, 1976

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-58, to amend the Income Tax Act, met this day at 9.30 a.m. to give consideration to the bill.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, as witnesses this morning we have representatives of the CRTC: Mr. Harry J. Boyle, Chairman; Mr. Réal Therrien, Commissioner; and Mr. J. M. Shoemaker, Executive Director. With them are Mr. C. C. Johnston, General Counsel, and Mr. T. R. Hart, special advisor and senior broadcasting consultant.

I take it, Mr. Boyle, that you do not have an opening statement, because you are not addressing yourself to any particular point.

Mr. Harry J. Boyle, Chairman, Canadian Radio-Television Commission: That is right, Mr. Chairman.

The Chairman: I should like to inform the committee that following the last meeting I acknowledged the letter from Mr. MacEachen, as well as the summary, which had been enclosed, sent by the U.S. Ambassador to Mr. MacEachen, with the written suggestion that a copy be provided for the Standing Senate Committee on Banking, Trade and Commerce. I also enclosed in both letters a copy of the transcript of that day bearing on this point. Subsequently I had an acknowledging letter which, to complete the record, I think I should read now. It is dated June 10.

Dear Mr. Chairman:

Thank you very much for your letter of June 10, and for informing me of the decision of the Standing Senate Committee on Banking, Trade and Commerce that nothing contained in the summary of the U.S. position with regard to Bill C-58 which I asked the Secretary of State for External Affairs to forward to the Committee, could be termed an actual or intended intrusion into your deliberations.

Indeed it is a standard procedure in both our countries for the Ministers responsible for foreign affairs to forward to legislative bodies statements of the views of the foreign government at their request.

The Ministry of External Affairs has confirmed this to me, both before and after the transmission of the summary of the United States position with regard to Bill C-58.

I very much appreciate your courtesy in receiving the statement of our views, and informing me of the views of the Committee on the procedure involved.

With much regard,

Sincerely,

And it is signed by the Ambassador.

Now, Mr. Boyle, we should get down to the business of the meeting. A letter from you addressed to Senator Keith Davey was put on the record the other day. It appears to have been signed on your behalf by Mr. Shoemaker.

Mr. Boyle: That is right, senator.

The Chairman: I take it you are familiar with it.

Mr. Boyle: As a matter of fact, sir, this particular point came up when I was attending the Western Association of Broadcasters meeting in Jasper. I spoke to Mr. Shoemaker and we constructed the letter over the telephone and it was forwarded at my direction.

The Chairman: So that the contents, in substance, represent your statement?

Mr. Boyle: That is right, Mr. Chairman.

The Chairman: We have been told that there was a proposal submitted by the border stations to CRTC on March 13, 1976, I think it was. Is that correct?

Mr. Boyle: Well, Mr. Chairman, I agreed with the staff, subject to some suggestions from members of External Affairs, that we would meet with representatives of the border stations. This was subsequent, I believe, to a meeting in January at which members of our staff did meet with External Affairs and officials from the United States. As to the acceptance of a proposal, I regarded this as a courtesy. It was not possible to be present at the first meeting, and that was the purpose of that particular meeting.

The Chairman: I did not ask you anything about the circumstances, as yet; I simply asked you if a proposal had been received on that date.

Mr. Boyle: Yes, I guess you would call it a proposal, from the members of the stations.

The Chairman: Let me put it this way: Here is a group of papers fastened together and labelled, "A proposal by U.S. border television stations," and entitled, "The Canadian-U.S. Border Television Problem and the Terms of Means for Achieving objectives for the Canadian Broadcasting System." Was such a document received?

Mr. Boyle: Yes, it was.

The Chairman: And was there a meeting with those representatives?

Mr. Boyle: Yes, there was, Mr. Chairman.

The Chairman: And I take it the border stations would include WBEN, WJR, KVOS, and so on?

Mr. Boyle: The meeting that was held at our office was attended by the representatives of Capital Cities Broad-

casting, KVOS and Wometco, WBEN, Senator Charles Goodell, KVOS Dean Birch, former chairman of the FCC, Jules Rosenbloom, who is the Washington representative, I presume, for the broadcasters, Royce Firth, who was the Canadian representative, and Allan O'Brien; and on our part, there was myself, Mr. Shoemaker, Mr. Hart, Mr. Johnston, Mr. Billon, and Mr. Watt from the Department of Communications.

The Chairman: I take it the proposal was distributed among the Canadian delegation—shall we call them?

Mr. Boyle: Yes, it was.

The Chairman: And what happened then?

Mr. Boyle: Well, it was agreed at the beginning of this meeting, as a precondition, that we would not discuss Bill C-58, nor would we discuss the matter of commercial deletion, as it was before the courts at the time. On the basis of that precondition the meeting was held. In answer to your further question, my understanding is that that group represented nine border stations.

The Chairman: Yes. Have you a copy of the proposal?

Mr. Boyle: Yes, I have, Mr. Chairman.

The Chairman: Are you prepared to produce it?

Mr. Boyle: I find myself in a somewhat difficult position, Mr. Chairman, because, we did not want to be prejudicial to either the legislature or the courts, this, on my understanding, was an informal meeting between us, based on the idea of discussing the general situation that existed as a source of so-called irritation on both sides. At the conclusion of the meeting, because we did not want misinformation, there was a common agreement that it would remain on a basis of confidentiality, although I did say that I would forward copies of this to other government agencies that were directly interested.

I can now say, in effect—and I do not think that this is disclosing anything that was confidential—that the general proposition put forward was very similar to one proposed some time previous by one of the individual stations, namely, KVOS, and it was based on the idea of establishing a so-called tax presence in Canada.

The Chairman: Did the meeting and the submission of the proposal not arise out of something that was said at or before the conclusion of the meeting of January 13, 1976?

Mr. Boyle: Well, Mr. Chairman, I was not present at that meeting in January; I was at a hearing in Toronto. Mr. Shoemaker was present. I do not know if he can add anything further.

Mr. J. M. Shoemaker, Executive director, Canadian Radio-Television Commission: Mr. Chairman, at that particular meeting in January 1976 it was suggested by the United States representative that the border stations may wish to make representations to the CRTC with regard to the policy of commercial deletion. The Commission, of course, receives representations from numerous sources on its policies and its licensing provisions, and we indicated at that point in time that if the border stations wished to make representations, we certainly would courteously hear them out.

The Chairman: Yes. In your letter, which you, Mr. Shoemaker, signed on behalf of Mr. Boyle, you do refer, in paragraph 2, to this meeting of January 13, 1976. You say:

2. I believe it important that it be fully understood that it was never intended that the discussions between Canadian and U.S. officials in January of this year be on the subject of Bill C-58. In response to a single representation on that issue by U.S. representatives, Canadian officials present quite properly took the position that they had no mandate to discuss a bill (Bill C-58) that was before the Canadian Parliament. In fact U.S. representatives at that meeting accepted without further comment that they could not expect officials to enter into consultation on any of the provisions of Bill C-58.

This is a statement which was made, Mr. Shoemaker, at the meeting of January 13, I take it.

Mr. Shoemaker: Yes, it was, Mr. Chairman.

The Chairman: Was it made by you?

Mr. Shoemaker: I am in a little bit of trouble here. Which statement do you refer to as having been made by me?

The Chairman: The one I read.

Mr. Shoemaker: I see. The response on behalf of the Canadian officials to the single suggestion by the U.S. representatives? No. The comment, Mr. Chairman, was made by the chairman of the Canadian delegation. It was not made by myself. I was present, but I did not make that particular statement. That, however, was the understanding.

The Chairman: Then, when the proposal was submitted, at the meeting of March 13, 1976, what happened next in that regard? Was that the end of the matter, or was there further discussion?

Mr. Shoemaker: I think the chairman is in a position to answer that.

Mr. Boyle: Well, it is very difficult. All I know is that I was made aware of what had taken place at the January meeting by minutes and by staff reports. Subsequent to that, I am not quite sure.

Mr. Shoemaker: Mr. Chairman, if I understand it correctly, when the proposal was presented to the CRTC, we undertook to transmit it to all other government representatives who were present at the January meeting. This we did. Nothing further has happened to that proposal.

Mr. Boyle: I think, Mr. Chairman, you are referring to what events were subsequent to the meeting in January. Is that it? Before this meeting in March?

The Chairman: Before the meeting terminated.

Mr. Shoemaker: I apologize. Before the end of that January meeting we agreed to a communiqué which was then read to the press, and was delivered, Mr. Chairman. It was a communiqué to the January 13 meeting.

Senator Walker: What happened between the January meeting and the one on March 13?

The Chairman: This is what I am talking about.

Mr. Shoemaker: The single event that happened between the two dates was an indication by representations

of the border stations that they wished to meet with the CRTC, and we arranged that meeting for March 18. That is all that happened between the two dates.

The Chairman: My question was directed to what happened, if anything, after the proposal was distributed at the meeting of March 13.

Mr. Shoemaker: That is what I thought your question was.

The Chairman: Well, I don't think I have an answer to that yet.

Mr. Boyle: In that term, what happened there was that through External Affairs and the Department of Communications the minutes of the meeting were distributed to the other government agencies involved.

Senator Walker: Then it cannot be a secret; everybody must know about it. Even RCMP secrets are not secret any more.

Mr. Boyle: I don't think there was anything that confidential about it. There has been so much speculation about it that I am sure it is general knowledge. I am sure that the representatives of the border stations, Mr. Frith and Mr. O'Brien whom I see in the audience, would have no objection to my mentioning the fact that there was a proposal, in effect, to establish what I might call a tax presence in Canada on behalf of various stations. It was not a coherent or very cohesive proposal, but it represented the interest of the various stations, and those stations vary, I suppose, according to their relationship to the market in Canada. This was proposed, in effect, as one way of ultimately finding some sort of solution.

The Chairman: Well, Mr. Boyle, as I understand it, the meeting recessed to discuss the document, that is insofar as the Canadian delegation was concerned, and in about 50 minutes or so they returned and asked a lot of questions. Is that correct?

Mr. Shoemaker: That is correct.

The Chairman: That is the question I started out to ask. There were minutes of that meeting kept?

Mr. Shoemaker: Yes.

The Chairman: Have you any objection to producing them?

Mr. Boyle: I see no objection.

The Chairman: And then I return to my earlier question: Have you any objection to producing the proposal?

Mr. Boyle: No.

The Chairman: I took the precaution of asking Mr. O'Brien, who represents a number of American stations and who was at the meeting, and Mr. Frith of KVOS, who was at the meeting, whether they would appear here this morning, and they have indicated that insofar as their clients are concerned they have no objection to the production of the proposal.

Mr. Boyle: I would have been in a difficult position, Mr. Chairman, if I had said no.

Senator Walker: Your footwork is good.

The Chairman: Then, if it is not convenient for you at this instant to produce a copy, I have made several copies myself.

Mr. Boyle: You are one up on me. Mr. Chairman. I have only one copy.

The Chairman: Now, so that there can be no doubt that it is a true copy, I shall give you a copy of it and I shall file a copy. Then we will have them distributed to the members of the committee. It contains about eight or nine pages, so you may not wish to take the time to read through it.

Senator Walker: With your unique ability, Mr. Chairman, could you summarize it for us?

Senator Macnaughton: Why not let Mr. Boyle do it?

The Chairman: In the presence of the people who were at the meeting, and since the minutes represent substantially what they said, I would not attempt to summarize their statements because I might go astray the slightest little bit.

Mr. Boyle: Well, Mr. Chairman, I have no hesitation in indicating that there is a summation that we made ourselves, in terms of the document, which I consider to be a fair one, if it is of help to you and member of the committee.

The Chairman: The summation related to their submissions on Bill C-58?

Mr. Boyle: Well, no, it is not Bill C-58, nor is it deletion. This is the proposal, because there was, as I said earlier, a precondition that we were not discussing Bill C-58 or commercial deletion. It was a proposal that came up from the group of nine border stations, and if you wish I could give you what we considered to be the summation of that presentation.

The Chairman: Well, I understand that the basis of the proposal was that the commercial deletion order of the board and Bill C-58 should not be further proceeded with until the discussions, and anything that arose out of those discussions, and the proposal had been dealt with.

Mr. Shoemaker: May I attempt to answer that? That is quite incorrect, to my knowledge, in every respect. There was never any undertaking given that there would be a moratorium on the commission's policy on commercial deletion.

The Chairman: Well, if I may interrupt you, I did not say, I did not ask and I did not use the word "undertaking."

Mr. Shoemaker: Well, there was never to by any interruption, and it was made quite clear to the U.S. representatives that there would be no interruption in the enforcement of the commission's policy on commercial deletion, and of course the members of the commission could give no undertaking on Bill C-58 because that would be in contempt of the parliamentary process. We had no mandate even to discuss those points with the officials. So neither of those two preconditions could possibly have pre-existed before the meeting in March.

The Chairman: Let us get back to my question. I asked you about a precondition as a basis for the proposal. Was that not a precondition?

Mr. Shoemaker: As for the proposal itself, when it was presented, the border stations in their proposal put two preconditions forward; first, that Bill C-58 be not implemented; and, secondly, that the commission stand down on its policy on commercial deletion.

Senator Cook: Mr. Chairman, can you help me? Can you clear up what is commercial deletion?

Mr. Shoemaker: The policy of commercial deletion has been in existence, not in terms of a policy but in terms of actual conditions of licence, which is something important to recall in this sense, because it is a condition of a licence granted by the commission to a cable operator, and the two particular instances which I would recall to your mind are Calgary and Edmonton, Alberta. The commission put as a condition to the licence that those two operators in those two Canadian cities should on a random basis delete the commercials from U.S. signals entering into the Calgary and Edmonton markets. In other words, on a random basis, the commercial that comes forward from a Spokane station is blanked out by the cable operator in Calgary and Edmonton and substituted therefor is a public service message. It is not a Canadian commercial but a public service message, and the basis for that is to interrupt the continuous flow of American signals containing Canadian commercial messages placed on border stations.

Senator Cook: But what do you mean by "random basis"?

Mr. Shoemaker: It is not done continuously. The cable operator does not do this continuously; he does not blank out all the commercials. It is not a total blank. He picks and selects certain of the Canadian messages on the United States signal on a random basis.

Senator Cook: But pursuant to what instructions does he pick them out, and how many?

Mr. Shoemaker: The cable operator determines that himself.

Mr. Boyle: No, excuse me. I am afraid, Mr. Shoemaker, it is actually a co-operative effort between the broadcaster and the cable operator. This question is almost academic here since it only takes place in one place in Canada. That is in Calgary. It has never been implemented further. Well, it was implemented in Toronto on one system. The point of the random deletion is simply to cause the least inconvenience possible to the viewer but, in effect, it destroys the logic of the sales argument that a certain message can be delivered at a certain time.

Senator Cook: Why is all the fuss being kicked up about it if it is considered to be only academic?

Mr. Boyle: Well, Mr. Chairman, I suppose we may consider it to be academic, but they may consider it to be more serious. I do not suppose that at the moment it is a great source of discouraging that amount of revenue they are taking out of Canada. However, the reason they are so intent on it is that they can see the possibility of it having a further adverse influence on them.

Senator Laird: But the ultimate sanction would rest with you on the Commission with respect to granting the licences, would it not?

Mr. Boyle: Mr. Chairman, in reply to the senator, we must make one point very clear. The Commission, in terms

of this, resorted to commercial deletion at a point at which it became apparent to us that the revenues in this country were just not sufficient for the demands of the broadcasting system, and that this drainage was preventing the licensing of additional stations and damaging the total output of the broadcasting system. It was, in effect, an effort on behalf of stations which had historically invaded the Canadian market before we had really come into full bloom in the field of television. We had to make some effort and do something, because there was such a particular push to extend cable to all parts of the country. At that time there were two proposals. We recommended in 1971 to various authorities the contemplation of a form of tax situation similar to what is now before you gentlemen. We also found that where we were introducing cable into a situation to which American border broadcasting could not reach by the normal extension of their signals, we were setting up, in effect, a captive market. In the Calgary situation it was only a matter of days after bringing in stations from Spokane that salesmen were on the street selling advertising, in a city of 500,000, which was very difficult, and, in effect, in an area in which they had never had before any sales representation because they had no signal. This was just taken as a first, almost desperate effort to try to find some means of stemming this flood, this hemorrhaging of money out of the country.

Senator Cook: Are we not confusing two things? Does this commercial deletion not have something to do with the border stations?

Mr. Boyle: It has everything to do with the border stations, sir.

Senator Cook: I was looking at your year book, which shows for 1970, sir years ago, total revenue in grants in broadcasting, TV and radio stations, to be \$427,999,000, and I would say that in 1980 that is more likely to be \$800 millions. Now, we are talking about here of something less than \$20 million, which is less than 2½ per cent.

Mr. Boyle: Mr. Chairman, we have in this country one system of broadcasting composed of two parts: we have public system, which draws very heavily, in terms of subsidy, for the federal government; we have a private system which is probably one of the most difficult in any country to maintain, which maintains itself strictly out of its own revenues. Those revenues, which come from stations such as those in Vancouver and Toronto, are used to supplement the coverage of the remainder of the country. Since 1968 that network has increased its coverage from 70 per cent of the population to provide an alternative service to over 94 per cent. It has done that out of advertising revenues and cannot continue to do it indefinitely, because they do not receive one cent of subsidy.

Senator Cook: I appreciate all that; I am endeavouring to get this into the proper perspective. We are referring, on the one hand, to \$800 million and, on the other, to approximately \$20 million going to border stations. I am just challenging how vital that \$20 million is in relation to \$800 million, it being 2½ per cent. It might be for a few Toronto stations.

Mr. Boyle: I am sure, Mr. Chairman, that there are members of this committee who are much more *au courant* with the circumstances of business enterprise. In 1974 the total after-income-tax profit, excluding the CBC and that subsidized element, was only \$6.1 million, so the \$20 million represents a tremendous amount of money.

Senator Cook: Yes, if it were all profit, which it would not be. My only point is directed to the comment in Mr. Boyle's excellent letter, which is the only part, in my opinion, which deals with Bill C-58, as follows:

The Commission continues to support the broadcasting aspects of Bill C-58—the legislative proposal that is presently before the Senate Committee, and considers the legislation vital for the continued development of the Canadian broadcasting system.

It seems to me that when you speak of \$800 million, on the one hand, and less than \$20 million, on the other, just how vital it is to the continued development of the Canadian broadcasting system can be challenged. While I see that it is important to some Vancouver and Toronto stations, I do not see that it is vital for St. John's, Newfoundland.

Mr. Boyle: Mr. Chairman, allow me to direct myself specifically to that point. We have a situation in the province of Newfoundland of a private broadcasting part of the CTV network that is sustained and at the moment is in a very difficult position because of the fact that it is very largely supported by the CTV network. The revenues that are achieved in the major population centres of Vancouver and Toronto are really, in effect, the only means of keeping it going. What if those revenues decrease any further, particularly in view of the situation with respect to inflation and other factors and a certain amount of hesitancy with respect to television advertising vis-à-vis other forms? We were faced at a hearing in Newfoundland by the applicant stating, in effect, that although he had done a commendable job in terms of the extension of service, a fantastic job, which was repeated all over the province, he did not know how much further he could go. There was even discussion at that point in connection with asking for a federal subsidy in order to keep second television service in Newfoundland. My own reaction—I have not discussed it with my colleagues on the Commission—is that it will be a sorry day in this country when we, because of the fact that we allow so much revenue to dribble away through our hands, have to go to the Parliament of Canada to ask for a subsidy in order to provide a second alternative service.

Senator Cook: I agree with your conclusion, but I still maintain that when you speak of a total revenue of \$800 million, on the one hand, and a total expenditure of approximately \$18 million to \$20 million; on the other hand, how can it be vital to the continued development of the Canadian broadcasting system? It is 2-½ per cent.

Mr. Boyle: Mr. Chairman, we do not in any way control the amount of subsidy that goes to the CBC, which constitutes a very large proportion of that. There is also the fact that of that total figure to which you refer a substantial amount goes to radio, which is an entirely different problem altogether, although it is now becoming a problem for the border stations because they are invading our market. The figure is somewhere between \$180 million and \$190 million in total. That is the figure that we are discussing, and on the basis of that there was a net income after tax of \$6 million.

Senator Flynn: How do you relate that amount to the gross amount of advertising? How much advertising do you need to get \$6.5 million net profit?

Mr. Shoemaker: Mr. Chairman, in 1974 the advertising revenues from all sources for Canadian stations amounted to \$225 million. Compare that to the \$20 million which was

taken in advertising revenues by the U.S. border stations. It comes out to one-tenth. They take one-tenth of the advertising revenues that are available to all Canadian broadcasting stations in this country.

Senator Flynn: Including CBC?

Mr. Shoemaker: Including CBC.

Senator Connolly (Ottawa West): Does that include radio and television?

Mr. Shoemaker: No, just television.

Senator Connolly (Ottawa West): You used the word "broadcasting".

The Chairman: I noticed you used the word "available". Is that intended to clarify the fact that there is no assurance that the revenue will flow in the reverse direction and will go to consumers in Canada and to the stations?

Mr. Boyle: Mr. chairman, it would be almost folly for us to assume that all of that \$20 million would, firstly, be lost to the border stations. A substantial portion, I would think, would be still remaining. A large part of the population can receive American signals. We live in the very strange situation that all their major population centres are too far away, if you want to talk about competition and such a thing as open competition.

In the one location where there is a major population centre, they have consistently, ever since the beginning of it, put in restrictive practices so that we cannot compete. That is in the Windsor-Detroit area.

Senator Davey: Would you expand upon the situation in Windsor?

Mr. Boyle: Well, I must say—and I hope, Mr. Chairman, you will forgive me when I say this—that I, as an individual, become tremendously annoyed when I am constantly exposed to the situation by representatives of the American stations that we are a cause of irritation. I would like to say that they are the cause of irritation here, and have been for a very long time. I do not say that in a nasty way, they are pleasant fellows, but the fact is that in the Detroit situation we had, over a period of time, the television and radio station owned by the American broadcasting system, Mutual Broadcasting. That was reclaimed. We directed private operators to buy it over a period of time, over five years, and they turn it over to the CBC, because the CBC did not have enough capital at that point to do it.

In the Windsor area we have Global, we have no CTV as such. We have a CBC station that carries some CTV, simply because it cannot carry on its stations programs purchased in the United States. There is a restrictive covenant on it which says that any program going on an American network must not be shown on a Windsor station. That is to protect their own station in the Detroit area. That is the most protective covenant that I know exists anywhere.

Senator Laird: That is all due, of course, to the advertising agency, I presume, that is handling the particular program which has been purchased.

Mr. Boyle: No, I do not think so. I think that is borne out by the fact that the stations in Detroit, some of which obviously I cannot tell you off hand, are part of chains or are affiliates of the network. They have such a persuasive

power because of the size of the Detroit trading area, and they can pretty well dictate what they want.

Senator Laird: In the case of hockey, which caused us in Windsor a lot of headaches, it was always blamed on the McLaren Advertising Agency.

Mr. Boyle: The hockey situation, I think, really relates to the business of protecting the box office in Detroit.

Senator Laird: Yes. That is why the advertising agency involved . . .

Mr. Boyle: Mr. Chairman, the point here is that you are charged with a mandate, the federal broadcasting mandate, to administer broadcasting; and within the parameters of that you are told what you should do. There should be a strong, healthy Canadian broadcasting system. The frustration of it is that you cannot administer it because someone outside takes over and has prerogatives which you cannot overcome in your own sovereign country.

Senator Macnaughton: Those are the precise questions on which you are meeting with the Americans to try to regulate.

Mr. Boyle: Mr. Chairman, that was not the fact of that particular meeting. We have never at any time deserted the original point that there had to be some tax protection. We adopted commercial deletion simply as an almost desperate measure; but I must state clearly that both those factors were precluded from any attempt on our part to negotiate. I was not present at the January meeting. There had been an indication that they wanted a further meeting and, as a courtesy, we said we would meet them and listen to their proposals. That is what we did, without commenting, except to ask for some further information. As the chairman has properly pointed out, after a recess to examine the proposal we asked for some further points of clarification. But it was never intended that we would interfere in any way with anything to do with impeding the process of the legislation, or indeed with anything against the wish of the court.

Senator Cook: I might have missed something, but when you were talking about the situation in Detroit, was that brought about by any action on the part of the American government or by the private networks down there?

Mr. Real Therrien, Commissioner, Canadian Radio-Television Commission: I chaired the Windsor hearing. The first item was the state of broadcasting in Windsor. Of course, the Commission has not yet reached any conclusion, but through discussion the Commission was informed of the fact that the distributor of programs in the States includes Windsor as part of the Detroit market. Of course, this clause is present also in any European contract, including some French productions such as films and certain programs. It means that when you buy a program you have to protect the Detroit market, because it is included.

Also at the hearing was a discussion of the location of the Canadian transmitters in Windsor, that the Global transmitter in Cottam—it is in the transcript of the public hearing—does not give a satisfactory signal in Windsor. The location was determined to protect the Detroit market. Although the grade "A" signal of Cottam does not reach Detroit, we were informed at the hearing by one of the engineers that the Detroit station had made a survey to determine the standard of the signal, and pursuant to that survey, even though the grade "A" signal did not reach

Detroit, Global could not continue showing its specific programs.

Parallel to that, you have a Canada-U.S. agreement from 1952 allocating channels between Canada and the U.S. The agreement says that the transmitters, either in the U.S. or Canada, should be located in the city which has to be served. So, in fact, you have, through separate agreements, a particular situation where in Canada, for obvious reasons, you cannot locate in Windsor the Global transmitter. So all these aspects were, in fact, surveyed at that hearing.

Of course, the distributor of programs defined the Windsor market as part of Detroit. Another point raised was whether it is possible in Canada to buy the rights for programs from the other country. The opinion at that time was that you could buy Canadian rights for programs except Windsor.

Senator Laird: That is correct. That states the position accurately. Is it fair to ask you this, arising out of those hearings: Was any evidence given on the value of advertising Detroit products on CBET-TV? That is our TV station. I happen to know the figure, but of course, I am not free to disclose it.

Mr. Therrien: To the best of my knowledge, I am not sure at this moment. I would have to check the transcript.

Senator Laird: I know the figure but —

Mr. Therrien: Many people in Windsor complained of the fact that they do not have access to all of the Canadian programs. If the CBC wanted to sell a program in the United States, they could not show that program in Windsor because it is part of the Detroit market. The commitment made by the CBC at the hearing was that in future all of the CBC's own productions would be shown on the CBC transmitter in Windsor. But, of course, there still remains the problem of American shows shown on the CBC network.

Senator Laird: Actually, you might still run into the problem of the advertiser controlling the situation. This happened to us in the past in the case of the Jalna series, which could not be sold or shown in Windsor for the simple reason that there was hope of selling it in the United States.

Senator Walker: I thought that was because it was no good!

Mr. Boyle: Mr. Chairman, we had a series which became internationally known called "The Galloping Gourmet", which was sold in over 30 countries. It was in exactly the same position. It could not be shown in Windsor because it was sold to the American network and was restricted.

With your indulgence, sir, I would like to suggest that this could very well be taken up as a contravention of the agreement in terms of licensing and the common logic of licensing stations. We license stations to serve a certain given area, as does the United States. That has been the logic for a long time, and whatever happens to spill over, it has no legitimacy out of the area. The fact of selling the Windsor market as part of the package in Detroit seems to me to be a gross contravention of that particular arrangement.

Senator Laird: Of course, the Canadian advertising done on Detroit stations is limited to such outfits as the Windsor Raceway, which is hoping to attract 85 per cent of its customers from the Detroit area.

Mr. Boyle: In the decision which we made in terms of the CBC, we are actively discouraging the solicitation of advertising in the Detroit market.

Senator Manning: Mr. Chairman, Mr. Boyle has stated that the minutes and a copy of the proposal made by the American representatives at the March meeting were distributed to the various interested agencies of the Canadian government. Has there been any response to that proposal from those various interested agencies of the Canadian government, and is it the intention of the CRTC itself to pursue that proposal further in terms of further discussions with the United States representatives, or has the whole thing simply been left in abeyance?

Mr. Boyle: In reply to your question, Senator Manning, we cannot proceed on the basis of this proposal. As I said, we refused any precondition that would have affected Bill C-58 and the fact of the matter of commercial deletion being before the court. I can say unequivocally that we plead for protection for our broadcast system, and we have ever since 1971. We took the commercial deletion situation merely *in extremis* because we know that this is only part of the major problems that exist in the further development of broadcasting. The difficulty about the present situation is that in trying to resolve and compromise—and “compromise” is the word in terms of this—you are prejudicing the future position of Parliament, which will be much more basic to the two systems than this particular one. This just happens to suit the financial interests of a group of border stations which, by geography, happen to have been benefiting from that fact.

Senator Manning: Am I correct, then, in concluding that insofar as the CRTC is concerned, and these other agencies, nothing further is contemplated with respect to the U.S. representations?

Mr. Boyle: I cannot comment on that. The fact is that the negotiations have been carried forward by the Department of External Affairs and the State Department of the United States. I would not even attempt to make a comment as to what is contemplated in terms of the further projection of this.

Senator Manning: The reason I ask the question is that, if I understood correctly the representations made to this committee by the representatives of some of these border stations, they were under the impression, or at least I gathered they were under the impression, that when they made this proposal it was received not merely as a courtesy but they could expect that it would be given consideration, that there would be a follow-up to their representations.

If I understand Mr. Boyle's position correctly, that is a false assumption on their part, because there was no intention to do anything other than to hear it as a courtesy and then put it on the shelf.

Mr. Boyle: Had there been in this proposal elements that would indicate to us that there were some progressive steps in terms of the total and ultimate situation respecting copyright and any of the other problems that are arising, such as satellite distribution—problems that are almost too horrible to think of at the moment—it would be a different situation.

Earlier on, Mr. Chairman, you asked me about the proposal. The summation I have here is as follows. Each of the nine U.S. border stations would develop a taxable presence in Canada in such a manner as to subject its income from

Canadian advertisers to Canadian federal and provincial income tax laws to the degree permitted by the laws of both Canada and the United States without double taxation.

At that point in the discussion, I indicated that it seemed to me that this would escalate the process of irritation; that in place of having one cohesive unit we would have nine visible tax presences in Canada, each conducting its own affairs. In effect, it would strengthen the degree of competition that went on. In a question to a member of the group—and I conveyed this to Ambassador Enders when he came to see me—I asked whether in effect this increased cost would mean increased sales activity, and the reply was, yes.

Senator Lang: Mr. Chairman, I am not commenting on the merits or otherwise of the proposal. What disturbs me is the fact that broadcast representatives from another nation, a neighbour nation, are left with the impression that this is now the subject of mutual discussion; whereas, if I understand Mr. Boyle's evidence correctly, there is no intention of pursuing such a discussion. If that is the case, I think these people should be so informed and not left with a false impression.

Mr. Boyle: Mr. Chairman, I said then and I say now that, subject to the fact that we do not want to prejudice legislation which is before this body or be in contempt of court, we are open at all times to discussion. I have a very good relationship with the chairman of the FCC. We are open at all times for discussion, because we know there will be continuing problems. This happens to be a very serious one in terms of our revenues as compared to theirs, and for that reason we have taken a very strong position, but it is only one part of the ongoing problems and irritations that will arise. Certainly, it is my understanding that the Department of External Affairs while maintaining the position that it does not want to infringe in any way on Bill C-58 or on the commercial deletion situation before the Supreme Court, has maintained discussions, and it is my understanding that these will proceed. It is my understanding that there will be a further meeting some time in July. We are certainly not cutting off any discussions.

Senator Lang: Mr. Boyle, you have referred several times to the possibility of prejudicing some matter before the courts. Is there presently litigation taking place?

Mr. Boyle: Yes, there is, senator. To summarize, it is the matter of a challenge to the commercial deletion in a particular case in Toronto.

Mr. Shoemaker: There are two cases, Mr. Chairman, before the courts bearing on commercial deletion, one being an application brought by the Buffalo stations appealing the commission's decision in the Rogers' case, in which the commission invoked as a condition of licence commercial deletion. That case has been heard by the Federal Court of Canada, which found in favour of the CRTC as having jurisdiction and authority to implement that condition of licence. The case has now been appealed to the Supreme Court of Canada and will be heard this fall.

The second case before the courts is a specific case against Rogers Cable Company itself for carrying on commercial deletion, not thereby just examining the jurisdiction of the CRTC but bringing into play such factors as copyright, trademark, and other factors involved in advertising.

Mr. Boyle: Mr. Chairman, I may have given Senator Manning the wrong impression. My understanding of this meeting was that we had no knowledge that Bill C-58 would be discussed, and when it became apparent that it was being discussed we withdrew from it.

In terms of commercial deletion, we do not know what the disposition of the court will be. One of the reasons for not making any public disclosure in terms of commercial deletion is to avoid being in contempt of court. But in respect of that, depending on how the decision goes, there is certainly no disposition on our part not to maintain discussions with the border stations about the matter of commercial deletion.

I must make it very clear that it was Bill C-58 which was the real problem, and the second problem was to make public any discussions about it. I do not want to give you the impression there is bad faith on our part in terms of this; there is not.

Senator Laird: Mr. Boyle, would it be fair to ask for your comments on a suggestion which has been made here that it would be helpful to have a permanent committee, as between Canada and the United States—something like the Canada-U.S. defence arrangement—for the purpose of meeting and trying to deal with the multitude of problems which you yourself have so rightly said are bound to arise from time to time? Is there any merit in that suggestion, in your opinion?

Mr. Boyle: I am not an expert on constitutional arrangements between countries. There is one way I proposed to the chairman of the FCC by which it could be settled tomorrow, and that is that we do not take local advertising on our border stations and they do not take any advertising on their stations. Then it is clean and clear. As a matter of fact, I have been told in Washington by senior people—I am not attributing anything to any individual—that that is the resolution of it. Cut it out. As a matter of fact, there is no legal right for those American stations to sell advertising in Canada, nor is there any legal right for us to sell advertising in the United States. It has grown up through a series of circumstances. After having pastured in that field for the last 20 years, very richly and luxuriously, they feel there is a sort of common law that says they have proprietary rights.

Senator Cook: Do you not overstate the case when you say there is no legal right?

Mr. Boyle: There is no legal right according to the way broadcasting is licensed. When we license a station in Toronto, the contours of the licence are within Canada. Those are very strictly adhered to. The Department of Communications issues a technical certificate for that. It is my understanding that we are licensing that station, and the contours of that station are within the boundaries of Canada. It has no legal right to go into the United States.

Senator Buckwold: Mr. Chairman, if I may, I would at this point change the direction of the questioning. However, I do not want to preclude any further questions on this aspect of the matter.

The Chairman: Go ahead.

Senator Buckwold: Mr. Boyle, I would like to ask you some questions about the submission made to us by the Institute of Canadian Advertisers. One of their comments was:

Increases in demand for TV time on larger Canadian border TV stations will probably result in an increase in their rates with serious consequences for smaller English and French TV stations and their employees.

Their point is that there is a very real shortage of prime time and it will not be long before major stations with the largest ratings will raise their rates, and that advertisers, in order to reach the major markets, will have to concentrate more of their budget than would normally be expected on those markets and, therefore, reduce what they have for the smaller stations across the country. That is a fairly serious allegation, as far as the bulk of smaller stations are concerned.

You are aware of the financial position of most of these companies, and I would like to have your comments on this matter, especially from the point of view of the rates that will be charged by the major stations in the larger areas, the Toronto, Vancouver areas and perhaps Montreal. Do you have any control, for example, over those rates? What is your opinion, if time sells out, about licensing new stations to provide more time? I would appreciate receiving an overview on all those matters because, to my mind, it is a fairly serious allegation they have made.

Mr. Boyle: I find this very difficult to accept. I think I know the testimony you are referring to.

First of all, we have a body which is complaining about the fact of scarcity of time. I will not mention that particular body. I know we were subjected to some of the most serious criticism that I remember in the history of the Commission about the licensing of other stations, including Global, which had a very difficult time and still has a difficult time. I know you are aware of that. There is the matter of the licensing of the UHF station in Toronto, which is a very tricky proposition, the licensing of a third station in Winnipeg and in Vancouver.

Some of the people who are now complaining about the fact that there is going to be a scarcity of time in the major centres were the very ones who were very loathe to support our new stations when they came into operation in the Toronto area when they thought there were going to be tough times. Now they find, because of the seeming upturn, they are in fact going into it.

There are two points about the advertising dollar. They are somewhat different in Canada from the United States. We have the majority of our private television stations in both French Canada and English Canada, and, indeed, the French situation is terrible because we are trying our best to extend it to balance it with the CBC.

Let me take English Canada as an example. The contribution by the CTV network is co-operative. In effect, those principal stations in places like Edmonton, Vancouver and Toronto are levied a higher degree of proportionate costs in order to maintain services in areas such as Newfoundland, the Maritimes and parts of Saskatchewan, and, indeed, to give service to areas such as Thunder Bay, where it would be impossible to operate a full commercial station. They, in effect, subsidize it. They give them the programs for nothing if they pay for the cost of the transmission. Yorkton is a situation in point.

So, first of all, there is compensation here because we do use the large stations, in various ways in the process of licensing, to keep the smaller stations in operation.

There was a suggestion to us last year, at the time of the renewal of the CTV licence, by management of CTV, that

there was a disposition, because of the increasing costs of advertising, to become more selective and to purchase the larger stations. In effect, those stations had to increase their rates. Of course, under the Anti-Inflation Board they are caught anyway. I really think these were proportionate to the costs of all other services. There was no capitalizing on it.

I can certainly check this, but I believe the matter of prime time in the majority of those cases in Toronto, at least, is a myth. There are plenty of opportunities on CHCH-Hamilton, which now comes in on cable to that part of the Golden Horseshoe; CBLT, CFTO, Channel 79, the Global stations. Unless something has happened almost overnight, these people have availabilities. I just cannot see that this is valid.

Senator Buckwold: In your opinion, the financial effects on smaller Canadian stations will not be significant as a result of the implementation of this bill?

Mr. Boyle: As far as I am concerned, no. As far as the smaller stations are concerned on the network, it will be beneficial to them. We can certainly go to those major stations in the Vancouver and Toronto area and make more demands on them in terms of programming and also in support of the smaller, more remote areas. I am particularly thinking of Newfoundland.

Senator Buckwold: The second recommendation of the ICA was:

Implementation of the Bill should be conditional upon agreement by the CRTC and in keeping with the CRTC's forward plans and policies for broadcasting in Canada.

Would you comment on that, please?

Mr. Boyle: The CRTC recommendation in 1971, that there be some form of taxes for protection, is an example of how forward we were.

Senator Buckwold: If you look at this carefully, they say they would really support the bill, in that case.

Mr. Boyle: I may have concluded wrongly, but I thought they were supporting it.

Senator Buckwold: I don't think that is the conclusion most of us came to.

Mr. Boyle: There is an ambivalence there. I only glanced through that and I may be confusing it with another matter, but I found that in the representation of the advertisers there was a difference of opinion. So, it may be a different group.

Senator Buckwold: Thank you, Mr. Chairman.

Senator Flynn: Mr. Chairman, there is a letter from Mr. Pouliot from the Quebec television station indicating that the implementation of the bill would have consequences which would not be beneficial to his station or to the possible extension of services to the lower St. Lawrence area, Rimouski and the Seven Islands.

Mr. Therrien: Mr. Chairman, we just had a hearing to study microwave networks for delivering signals in the eastern section of Quebec, including the Saguenay and Lac-Saint-Jean. Part of that microwave facility would bring a better quality of American signal to Quebec City. As you know, most of them are picking it up just off the air at the moment. This is a specific proposal to bring it to

Quebec City, the lower St. Lawrence, the Seven Islands and Baie Comeau. We just had a hearing on that. I presume the letter of Mr. Pouliot was prior to that hearing.

Senator Flynn: It was recent. When was the hearing?

Mr. Therrien: The 8th of June.

Senator Flynn: The letter was about that date.

Mr. Therrien: Just to give you an example, we were told at one hearing last year, I believe, that the situation in Montreal was such that American stations were carrying French commercials. I am also informed that one station in Ottawa is doing the same. So at least for the Montreal market at this point in time it works both ways. Depending on the decision which the Commission will reach on the microwave proposal, that could have an effect.

I should like to point out that in the last renewal of the television network and the member stations, the Commission pointed out the fact that Telemetropole in Montreal, CFTM, and CFCM, which is Telecapitale in Quebec City, should assist in the extension of the television network in different areas.

Senator Flynn: I am aware of that, but I would say that Mr. Pouliot, with this program and extension in mind, fears the consequences of the implementation of this policy provided in Bill C-58.

It seems to me that the stations most interested in this bill are located in the best areas in Canada for obtaining advertisements. It seems to me a bit illogical to say that it will be helpful to the remote areas of Canada, unless, of course, you force all of these stations to use part of their profits for extension.

Mr. Boyle: Mr. Chairman, that is exactly the point. That is why they are exposed to the American stations. It is because they dwarf the similar locations in the United States. Bellingham has 40,000 or 50,000 people compared to the whole of the lower mainland which is getting a million-and-some-odd viewers, or a potential of that. It is that very fact that they are adjacent to our growing areas.

The second point is, as I stated earlier, that it is the policy, on both the French and English side to use the more popular stations, or the more profitable stations, in those larger centres to subsidize to an extent the extension of services and the general Canadian programming.

Senator Flynn: In other words, you want the most prosperous stations to become more prosperous?

Mr. Boyle: We want them to be able to maintain that level which they have now, because it is only on that basis that we can possibly keep up our programming.

Senator Flynn: I hope you are right.

Senator Walker: Mr. Boyle, would you be good enough to tell us, when you got the proposition from the Americans, which has been kept secret except for the departmental heads, did you ever discuss their proposition that this bill should be held up until serious negotiations should be concluded with them? Did you ever take that up with any of the ministers?

Mr. Boyle: Mr. Chairman —

Senator Walker: Just answer the question.

Mr. Boyle: No, I did not.

Senator Walker: Of course you did not.

Mr. Boyle: Well

Senator Walker: Just a moment. Why didn't you? Just answer my question.

Mr. Boyle: Because this has nothing to do with Bill C-58.

Senator Walker: What has nothing to do with it?

Mr. Boyle: The proposal that came from the American stations.

Senator Walker: It hasn't anything to do with it?

Mr. Boyle: No.

Senator Walker: No. All right. Why not? Why hasn't it?

Mr. Boyle: Because it is a matter of discussion of the commercial deletion situation.

Senator Walker: Yes. Do you not think you would be in a better bargaining position if Bill C-58 were held over the heads of the Americans and not passed until you could discuss all the problems between the two countries?

Mr. Boyle: We remain convinced, as we were and as we have been ever since we began in 1968, that there has to be some, or there had to be some way of staunching this flow of money out of this country.

Senator Walker: The fact is, however, that the suggestion that this bill be held up was never mentioned to any of the ministers.

Mr. Boyle: Not to my knowledge.

Senator Walker: Not to your knowledge?

Mr. Boyle: No.

Senator Walker: Therefore, the possibility of holding up this bill and not antagonizing the Americans unduly by putting it through without the consultations which they had requested did not occur to you as a very good basis for bargaining.

Mr. Boyle: Well, Mr. Chairman, I cannot bargain on behalf of the Canadian government. The Canadian government has a piece of legislation before it and I do not feel—I could never feel at any point—that it is within the prerogative of the head of an agency such as this to take on the responsibility of dealing with a major situation of that kind.

Senator Walker: That is right. You did not feel competent to bargain and you did not feel called upon to tell the people who could bargain, namely the cabinet or any member of the cabinet or a particular minister; you did not feel that it was worth while telling him about this.

Mr. Boyle: Excuse me, I may have misunderstood you, Senator Walker.

Senator Walker: I don't think so. I meant what I said.

Mr. Boyle: I certainly transmitted the minutes of this meeting to the minister.

Senator Walker: That is all. They get thousands of memoranda every week. My point is that you never attempted to discuss the American proposition with your minister or any other minister.

Mr. Boyle: It was my minister . . .

Senator Walker: Just a minute. Did you or did you not?

Mr. Boyle: I never discussed the proposition.

Senator Walker: That it it. All right. I think that is pretty high-handed on your part.

The Chairman: May I just point out to you, Mr. Boyle, that in answering Senator Walker possibly you may not have encompassed fully his question, because I notice on page 3 in the proposal that it says: "In the event that neither Bill C-58 nor commercial deletion is implemented the U.S. border stations listed below will take the following steps." That is, the proposal is effective under these preconditions. So that Bill C-58 and your commercial deletion situation did enter into the proposal. Is that right?

Mr. Boyle: I find myself in a difficult position here because I am not quite sure that I haven't been led down the garden path by Senator Walker.

Senator Walker: Never!

Mr. Boyle: Either that or I am naive.

The Chairman: He would never do that.

Senator Walker: I always try to guide you along the garden path.

Mr. Boyle: It is often difficult to explain something which you have undertaken to do as a courtesy when it becomes misinterpreted. We did this simply, as I said in the first place, as a courtesy to the Americans, because we remained convinced and still remain convinced, so far as Bill C-58 is concerned, or the taxing, that it was necessary.

In my terms, I met with them myself, with the staff, as a matter of courtesy. It now seems that there is a connotation being put on it as if that was in some way or other almost a formal procedure. I never at any time considered, and I am sure from the tenor of the meeting that none of the people who were there considered it to be that kind of formal meeting to bring a conclusion. It was, and I go back on my point, it was that we felt to be a courtesy to listen to their proposal. I found what it was a friendly meeting and that they were aware of our particular situation.

So, as I say, I do not want to suggest at all to Senator Walker that he would attempt to lead me down the garden path. It is just that I am naive.

Senator Walker: You are not naive, you are a very nice person. Nevertheless, the fact remains that the courtesy you were going to extend to the Americans did not go so far as to bring up this matter specifically with any minister. What is the answer to that?

Mr. Boyle: My answer to that is that we reported the result of the meeting.

Mr. Shoemaker: The minutes of the meeting and the proposal were transmitted to the senior officials of all the ministries that had been involved.

The Chairman: I just wanted to point out, for Senator Walker and for Mr. Boyle, that in the opening paragraph of this proposal reference is made to the meeting of January 13, and then there is something in quotation marks, which I assume means that the words have been lifted out of some earlier correspondence or documentation, as follows:

Further meetings on the Canadian-U.S.A. intergovernmental meeting of January 13, 1976, on the subject of commercial deletion, ended with an agreement that "further meetings will take place in the near future between appropriate Canadian and U.S. officials to consider alternative means for achieving the objectives of the Canadian broadcasting system."

Senator Molson: What are you reading from, Mr. Chairman?

The Chairman: I am reading from the opening paragraph of the proposal of March 13, 1976.

Senator Molson: The proposal by the American stations?

The Chairman: Yes.

Senator Molson: We have not seen that yet.

Mr. Boyle: Mr. Chairman, it is my understanding that that has not been allowed to die, that there have been continuing discussions between the External Affairs Department and the United States State Department about that particular point, and that further meetings are to take place.

I presume, and have always presumed, that those meetings will take place on the level of External Affairs, similar to the meeting in January, which brought into play the CRTC, the FCC, External Affairs and the State Department and suitable officials. I do not construe that the meetings we had with them in regard to these proposals were similar to those meetings. Those meetings are still contemplated, and I am privy to some of the messages exchanged between the External Affairs Department and the State Department. They continue their constant, normal discussions, and I believe they are, even at the moment, discussing the matter of a further meeting, as described here, which at one point was scheduled for this month but which now, I understand, will probably take place early in July.

Senator McIlraith: Mr. Boyle, I want to clarify one small point. I do not think there is any confusion on it, but it might perhaps be better to make it clear beyond all shadow of doubt. The point I have in mind is this. Throughout the evidence this morning you have made it very clear that you want to stop the drain of Canadian advertising dollars through the medium of TV broadcasting to the U.S., and you have made that your whole thrust, I think. In doing that, you have on several occasions indicated your strong approval, if I may say so, of Bill C-58; but Bill C-58 contains two distinct parts, which I think are unrelated. One part is the part dealing with the broadcasting medium, which is a regulated agency, and the other part relates exclusively to the periodic press and the printed word. In the part of the bill relating to the periodic press, and trying to deal with the alleged drain of advertising dollars through the medium of the printed word, there are clauses which many of us think would be quite objectionable in any bill, and I refer particularly to the retroactive provisions, which cannot, of course, affect the periodic press but do damage individual advertisers who have spent money, or contracted to spend money, in the past. That retroactive provision is not applicable to the broadcast part.

Several times this morning, in indicating approval of Bill C-58, would I be correct in assuming that you intended to indicate approval for Bill C-58 in its television broadcast aspects only, and that you are not directly relating your

remarks to the part of the bill that is applicable only to the press?

Mr. Boyle: Well, Mr. Chairman, in reply to Senator McIlraith, I would like to point out to you that the last paragraph of the letter which it was arranged for Mr. Shoemaker to send on my behalf to Senator Davey, is as follows:

I should not for your information that in 1971 the Commission recommended to the Government that the provisions of the Income Tax Act should be amended in order to offset the heavy financial involvement of U.S. border stations in the Canadian broadcasting system. The Commission continues to support the broadcasting aspects of Bill C-58—the legislative proposal that is presently before the Senate Committee, and considers the legislation vital for the continued development of the Canadian broadcasting system.

Senator McIlraith: That is what I wanted to clarify. Your letter limited itself to the broadcasting aspect of Bill C-58.

Mr. Boyle: No comment was intended on any other part of the bill.

Senator Smith (Colchester): I have two matters, Mr. Chairman.

Mr. Boyle made reference to the necessity of finding some way of stanching the flow of Canadian money to American stations, and I think he referred back to 1971 onwards. I wonder if he could tell us whether that flow increased, or decreased, or what happened to it in the years between 1971 and the present time.

Mr. Boyle: Offhand, I could not give you an answer. My understanding is that it has increased and certainly in the case of KVOS their presence may have increased, but it has always been high because of its particular location.

I referred to staunching the flow of this particular revenue situation, but I should also point out the fact that one of the most serious consequences of the whole thing, which still remains to be resolved, is the constant problem that we have in Canada of dealing with international trademarks. As an educated guess, I suppose that there would be some \$40 million or \$50 million worth of advertising that would normally come to us but does not, simply because it is connected with products that are as easily available in Canada as they are in the United States. I presume that is why BA Oil changed to Gulf Oil, because it saves a lot of money if you can show an insignia or trademark that is understood just as easily in Alaska as it is in Florida. We have no way of controlling this at the moment.

Senator Smith (Colchester): If that has increased in the last few years, has it increased in its proportion to the whole of the advertising revenue, which somebody mentioned as being about \$220 million a year?

Mr. Boyle: I could check that and supply you with the information on it, but I would hesitate to make a specific answer at the moment.

I know that in the case of the smaller stations, such as the Watertown station, it certainly has increased, and I think we would be safe in saying that it has increased disproportionately to the normal flow in the majority of cases, except perhaps for Bellingham, because they were given exposure to new markets that broadened out considerably.

We know also—at least, I assume—that up to the last two or three years there wasn't a series of salesmen between Kingston and Ottawa selling advertising on the Watertown stations to garage men in places like Winchester.

Senator Lang: Mr. Chairman, this is an elementary question and I hesitate to bring it up, but in Mr. Boyle's evidence he was referring to Bill C-58 on the one hand, and on the other hand to cable deletion. Perhaps naively I had been assuming that those two things were exactly the same policy; that is, they are a method of putting a tariff against advertising from the United States. Am I mistaken in that assumption?

Mr. Boyle: One, of course, is the legislative tax procedure that you have before you. The second one is almost a mechanical situation.

Senator Lang: But is it not for exactly the same purpose?

Mr. Boyle: Well, I suppose that ultimately what you would be trying to do would be to find some means to ease the situation; but I would suggest that the tax one is a much broader one than the commercial deletion situation.

Senator Lang: If Bill C-58 is passed in its present form, will the CRTC maintain its present policy of deletion?

Mr. Boyle: Well, Mr. Chairman, there again I find that I cannot really comment because at the moment we have two cases before the Supreme Court.

Senator Lang: Let me ask it this way: Does "foreign broadcast undertaking" in subclause (4) of clause (3) of this bill refer to cable? I do not know. I cannot tell from reading it.

Mr. C. C. Johnston, General Counsel, Canadian Radio-Television Commission: Senator, the provision would apply to advertisers who are advertising on foreign stations. It would not affect the cable licensees as such.

Senator Lang: In other words, it goes further? The deletion goes further in that it knocks off everybody, whether the advertising is sponsored by Canadian advertisers for the Canadian market or not?

Mr. Johnston: It could, depending on the commercial that was deleted.

Mr. Boyle: Mr. Chairman, perhaps I could explain commercial deletion. Commercial deletion was instituted primarily in the Calgary market after an agreement between the broadcasters and the cable operators. They agreed to the terms, such as sharing costs and the direction as to the form of the deletion. Because of various situations that came up and because of the deletion in Toronto by Rogers, which was challenged by the Buffalo station, we have not implemented any commercial deletion arrangement since then. We have, in terms of decisions, directed applicants, both broadcasters and cable operators, towards discussing agreements, but we have not approved any agreement subsequent to that.

Senator Lang: That seems to be a very reasonable approach. Mr. Boyle, and I am sure there would be just as reasonable an approach under the present circumstances with regard to ordinary broadcasting, would there not?

Mr. Boyle: I don't quite follow your point, senator.

Senator Lang: Well, you said you would encourage the cable operators to negotiate the question of advertising.

Mr. Boyle: If we take the specific area of Calgary, there are now three television stations there. Those television stations have an arrangement with the cable companies. They have an agreement on the terms relating to how they consider the situation should be handled. That is the physical proposition on how to handle it—the costs related to taking a commercial out and inserting a non-commercial slide. Then they have an agreement in terms of how extensive it will be. All cablecasters, I should say, and all broadcasters do not want to go beyond a certain point. They simply want to interrupt the situation so that salesmen cannot give a firm delivery proposition for a contract.

Senator Lang: And it would be pretty hard to sell advertising without a firm commitment.

The Chairman: That produces no flow of money.

Senator Lang: To wrap up, Mr. Chairman, if my assumption is correct, then basically the philosophy behind cable deletion and Bill C-58 is the same. We cannot but assume that they are. Don't you think that they are part and parcel of the same problem and should be dealt with in the same way?

Mr. Boyle: In some sense they are related, but we do not associate them together. If Bill C-58 is implemented, we still have major problems in terms of the amount of direct or indirect revenue that can come out of Canada. We have proposals and we see them constantly, that in effect there will be means taken to thwart the purpose of Bill C-58, but we are still in support of it because we think it is a logical development. I do not want to make a commitment on behalf of the Commission in terms of commercial deletion, because I am not in a position to do so. I do not have the authority to do it on my own. We certainly do not put it on the basis that if one comes in, we do not have to have the other one, but after Bill C-58 is passed we will certainly consider the situation to see how it will be in the light of the effect of Bill C-58. I can assure you, Mr. Chairman, that the Commission is no happier about this than anyone else. Many of the people I am dealing with I have known for a long time and I do not like to have these situations developing. But, as I said at the beginning, I always get slightly annoyed when it is pointed out as a fact that we are the irritant. We are not; the irritant is on the other side.

Mr. Shoemaker: Mr. Chairman, I wonder if this might be of assistance to the committee. The reference from the United States proposal that is in quotations is from the last paragraph of the communiqué that was developed after the meeting of January 13. That is where the quotation comes from. It is interesting to indicate that the first paragraph of that communiqué says that the meeting was held to consider the views of the United States Government concerning the deletion from Canadian cable television transmissions of commercial messages originating from United States broadcasting sources as required by the Canadian Radio-Television Commission. The reason that the meeting was held under the auspices of the CRTC in March with United States border station representatives was because of the understanding that they would be coming forward with their proposals for achieving the same objectives as designed for commercial deletion, because that was the policy and the condition of a licence imposed by the CRTC.

The Chairman: I have to assume that the communiqué you referred to was a joint effort.

Mr. Shoemaker: Yes. When we found that they had linked in their proposal Bill C-58 with the question of commercial deletion, that came as a surprise because, of course, the Commission was in no position to deal with that.

The Chairman: Then I would think that the communiqué the witness referred to, and the proposal and the summary that Mr. Boyle referred to, should be part of our record.

Senator Molson: Just to clear the matter a little further, Mr. Chairman, I would like to ask Mr. Boyle if after the March 18, 1976 meeting there was any understanding that the Commission would raise the matter with the ministers concerned—for example, External Affairs and Communications. Was there any suggestion of that?

Mr. Boyle: The agreement was that we would transmit the proposal to the concerned officials.

The Chairman: Would that include the Minister of Communications?

Mr. Boyle: Well, whether this was sent, I can't tell you.

Mr. Shoemaker: Yes, it was.

Mr. Boyle: It would go to the Minister of Communications automatically.

Senator Molson: There was just a transmission then. There was no suggestion that the matter would be furthered by the Commission in any way with the department?

Mr. Boyle: The Commission would report and deliver the pertinent information to all the departments involved.

The Chairman: That would include the comment you made in the course of the meeting after you came back from your recess?

Mr. Boyle: Yes.

Senator Molson: I have one other question, Mr. Chairman, and it is not related, I am afraid. As I remember it, the American stations in their evidence several times said that to them the idea of taking their programs and then dealing with them differently—like deleting the commercials and so on—seemed grossly unfair. They wondered how we thought it justifiable to take the programs and then treat them for our own purposes. What is your answer to that point?

Mr. Boyle: One of the problems in connection with this—I recognize it to be a problem—is that the Canadian system already purchases something in the order of 80 per cent of the American prime time product, paying a substantial amount of money, which increases every year and for this year will be approximately \$46 million or \$47 million. The system is, in effect, already buying such programs on the understanding that they may be employed for commercial devices. Then it is subjected very often to the situation of the same program being transmitted on American stations. That is why the Windsor situation strikes me as such a surprise. Our understanding is that no one would, in effect, sell a program, not a network type, but a local program, to a Buffalo station and demand that included in that be the Canadian circulation figure. We certainly would never do it. That is part of the proposition ultimately, and this is one of the difficulties about the whole situation. This is a very long way down the line. It is my understanding that within the United States this kind of competition is not allowed

between stations. If Toronto, by some accident of geography, which some western members might like to see, happened to become part of the United States, certainly there would be a pretty restrictive covenant on the sale of advertising between those two situations under the FCC.

To return to the point of the use of it, there is no doubt that over a considerable period of time we have grown used to American signals and pay for a great many of them. We have an increasing problem in terms of spillover between the two countries. The method of resolving it is that we simply do not invade each other's territory—for instance, by the program distribution in the Toronto area. If we happened to lay down a signal in Buffalo, we would just tell our licensees they could not sell local advertising in the Buffalo area. Similarly the FCC would tell the Buffalo stations not to come into the Toronto area.

Senator Molson: But in the other situation it is our cable station that is picking up the American signal and propagating it in another area.

Mr. Boyle: Yes, and with all deference to the senator, Mr. Chairman, I suggest to you that, as far as I know—I happen to know this because I had something to do with copyright and am rather jealous about it—this kind of allowance, or making it legitimate, that the Buffalo stations do have a legitimate right in Canada, precludes ultimately whatever form of justice may come about in terms of giving recompense to the copyright owners of the products evolved.

Senator Smith (Colchester): With reference to Mr. Boyle's comment that the method to resolve this problem is simply not to invade each other's country, has that proposition been made to Mr. Boyle's counterpart in the United States, or the United States government, or both?

Mr. Boyle: I was not privy to the January meeting, so I will ask Mr. Shoemaker to reply. I know that in my own case I asked directly of the chairman of the FCC why we could not resolve it in this manner.

Mr. Shoemaker: Mr. Chairman, at the January meeting during discussions the representatives of the Commission pointed out Commission's attitude, making reference to the Commission's decision with respect to the CBC in the Windsor area, in which we vigorously indicated that there should be no attraction of advertising from United States sources by the CBC in the Windsor area. We asked the United States representatives if they could not adopt a similar policy through the FCC to preclude their stations from gaining advertising from Canadian sources. That proposal or representation was met with a deadly silence and an audible cough. Of course, the reason for that is self-evident; there is just too much money involved for those U.S. border stations.

Senator Smith (Colchester): I can understand the U.S. border stations quickly dismissing that, but I am concerned about whether it was rejected by Mr. Boyle's counterpart in the United States.

Mr. Shoemaker: Well, it was dismissed, and the United States border representatives were not present at that meeting. There were representatives of the FCC and the State Department.

Senator Smith (Colchester): I understand that, but I am asking a specific question: Did the head of the FCC in the United States reject that?

Mr. Boyle: Mr. Chairman, I am placed in a difficult position, because I did not make this as a formal presentation. I made it myself as a personal representation to the chairman of the FCC, and I can only say that I did not—I have to be very careful.

Senator Smith (Colchester): Was it not well received?

Mr. Boyle: No, I cannot say that it was not well received. It would, I suspect, place the FCC in a difficult position because of the amount of pressure apparent in this whole situation.

Senator Molson: Would you say there was no obvious result?

Mr. Boyle: No obvious result; it may, indeed, at some future date become apparent.

The Chairman: You do not know whether it is incubating?

Mr. Boyle: I would suspect that under the pressures that exist at the moment there is not the right kind of heat and humidity to generate.

Senator Macnaughton: Mr. Chairman, may I ask the witnesses where these meetings were held? Was it in Canada or in the United States and at which place?

Mr. Shoemaker: The meeting in January, senator, was held in the Lester B. Pearson Building, and that in March was held in the Commission offices in Ottawa.

Senator Macnaughton: The Minister of Communications appeared before the committee some time ago, and I understood from her remarks that ongoing conversations were being held even at the present time. If I understood your testimony this morning, you said that the CRTC and the Department of External Affairs are more or less in constant communication.

Mr. Boyle: Mr. Chairman, there is communication on the staff level between members of the Department of External Affairs and the various departments involved in this. My understanding is that the Department of External Affairs has taken to heart that statement that further meetings will take place between appropriate Canadian and American officials. That is the point of the discussion which is proceeding, and at the moment there is contemplated a further meeting for some time this summer.

Senator Macnaughton: That is the point of this question: Everyone says that meetings are ongoing, but meetings are not being held. Would you say it is fair to say that perhaps the meetings have been suspended pending consideration of Bill C-58?

Mr. Boyle: No, I have copies of the exchanges here between the Department of External Affairs and the State Department. There seems to have been a series of circumstances involving officials being unable to come together, which seems to predominate. As a matter of fact, I believe there was a meeting arranged at one point but there was an interjection by the visit of the Secretary of State of the United States. So I presume this is on a list of the Department of External Affairs of various matters which are under constant scrutiny as a matter of priority. If I remember correctly, one meeting went down because of potash or something.

Senator Macnaughton: Yes, that is very true. But, as you know, meetings can be pushed ahead, or they can be more or less postponed pending the development of events.

Mr. Boyle: My understanding is that Ambassador Enders is in contact with the Department of External Affairs. He has been in contact with me—and, I presume, the Department of Communications and various others.

Senator Macnaughton: I cannot understand why, if we have these great points of irritation between the United States and Canada over these particular situations, which will become worse rather than better unless we find a solution, we do not get around the table and make a trade off. It has to be now, or in the future. Or are we waiting for Bill C-58?

Mr. Boyle: Mr. Chairman, it is all very well to talk about a trade off. However, I suspect that in terms of trade off, if I may presume with your indulgence to say, there are points at which we would be setting up a worse situation. If we took something which in the first place we did not believe really to be a legitimate right and treated it as a trade off, as something to be exchanged, we would be establishing a precedent which ultimately would cause us more difficulty even than the one we now experience.

I go further and suggest, in all deference to this body, that we find it very difficult to accept that there is this constant employment, very cleverly, on the part of people to say that we are a source of irritation to the United States.

The fact is that in this situation there is a group of vested interests in a small number of border locations, located near to our growing population, that over a period of time have managed to enrich themselves without any legal or legitimate right in the selling of advertising, and taking it out of our total revenue which is very small compared to the amount of energy and effort it takes to cover this country.

When Dean Birch was at that meeting, I astonished him, as a former head of the FCC, when I showed him what it costs, and the kind of situation we have had in this country since 1968, to increase the coverage of the second network, CTV, from something around 70 per cent up to 94 per cent, and have that coming out of the advertising revenue of a group of eight or ten private stations. If we talk of tradeoffs, let us beware that we do not give legitimacy to something that we should not be trading off at all.

It has been our contention from the beginning, since 1971, that this is not a matter of tradeoff, that, if anything, if the American stations had come forward and had said to the Canadian government, «Here is a situation which has existed over a period of time and it has allowed us very healthy profits,»—those stations were licensed to make a legitimate amount of money in their licensed area in the United States; this is a windfall—and they had said in 1971-72, «Look, we will phase out over a period of time,» fine. But we find, in terms of this proposal, that it is not one source of irritation, but a series of nine irritations, in effect, which will mean an accelerated amount of effort in terms of generating revenue in Canada, at a time when we desperately need it in order to maintain service in the province of Newfoundland.

I remain convinced that we will have one service in this country, because it is not, and never will be, palatable to anyone, either in this room or anywhere else, to go to the federal government and say, in effect, that in order to have

a second alternative service we must have a federal subsidy. I say, with all deference, that that is what we are faced with.

Senator Macnaughton: That is what we want, on the evidence.

Senator Cook: Mr. Boyle made reference to the fact that if the border stations were serious, they might have made a proposal to phase out. Following that line of thought, assuming that the taxation sections of the bill are meritorious, and in view of the ongoing conversations and the irritants—six on one side and half a dozen on the other—would there be any merit in phasing in these taxation proposals over, say, five years?

Mr. Boyle: I presume that from the period of time it has been in negotiation, it has been a phasing process, because it has been under consideration for a long period of time, in which people have known that the bill was there. I presume a great many people in the legislature and in this body are quite serious about the matter. In terms of that, I would hesitate to make a suggestion in terms of the phasing in process. There is a commitment, according to my understanding—I stand to be corrected in this—that in the Vancouver situation, for instance, it would not be implemented for a year — is that right — because of the institution of a new station? Now, of course —

Senator Cook: What I meant by «phasing in» was to deduct 80 per cent of your expenses in one year, 60 per cent the next year, 40 per cent the next, down to nothing.

Mr. Boyle: I hesitate, Mr. Chairman, to answer that without giving it some consideration.

Senator Smith (Colchester): With reference to Mr. Boyle's comment about U.S. stations making a proposition that they would gradually phase out, might I ask, in turn, if that proposal has ever been put by Mr. Boyle to his counterpart in the U.S., or by the Canadian government to the United States government?

Mr. Boyle: Mr. Chairman, these negotiations—I am sorry to take up your time, but I must explain—are between External Affairs and the State Department. When we became aware of them, they were at that stage of development. Once it reaches that process, where it is on a formal basis, or whatever degree of formality protocol demands, they are carrying forward the situation. So it puts us in a somewhat difficult position about any kind of bargaining. We had already gone on record regarding Bill C-58. We had listened to a proposal from KVOS for establishing a tax presence in Canada. At that point we could not find any advantages to the broadcasting system. Subsequently, when the initiative was taken by External Affairs, it became very difficult. So my approaches to the FCC have been simply those of an individual speaking to an individual about various matters. We have hesitated to take any initiative because, as I have said, we were not in a position to comment on Bill C-58.

Senator Smith (Colchester): Assuming for the moment that that is a sound position, I suppose there is nothing in that position which would prevent representations being made to the minister, to whom the CRTC reports that this would be a proper approach to make to the U.S. government—

Mr. Boyle: Excuse me, Mr. Chairman. I cannot get into my mind the fact that somehow or other we are the people

who should be advancing the proposals. We are sitting in our legitimate, sovereign country, with our own process of broadcasting which has been going on for a long time, and which has been most difficult, and yet suddenly, it seems to me—I am not suggesting that there has been any feeling of that on the part of you gentlemen —

Senator Walker: Supposing there were, you could not object to it.

Mr. Boyle: But the fact is that there is a kind of implication that Canadians as a whole are doing something for which they should feel guilty, and that we should be proposing solutions. Certainly, if I were in a position where I had a grub stake of this kind, and this amount of money, I would be scurrying around to find some practical way—I do not blame them for it—to advance towards a solution of the problem, not aggravating it.

Senator Smith (Colchester): Yes; but I do not believe you have really answered my question, unless by implication you wish us to assume that you have not made any representation to your minister that a proper solution might be to advance a proposal that this could be achieved over a period of years rather than instantaneously.

Mr. Boyle: No, because we have listened to KVOS, and our representations were made toward some form of tax legislation as a form of protection. Whether or not that was taken into consideration, they have progressed, as part of that bill, to this matter we are now discussing. We left it at that point.

Senator Davey: Did I understand from something Mr. Boyle said in his earlier remarks that radio stations are having a problem with border advertising?

Mr. Boyle: To come back for a moment—I hope you will forgive me, Mr. Chairman, if I speak this way, but I do so with respect—at a time when we have this so-called irritation, we are also contemplating in this country, and have been working on it for quite some time, a proposal which is in response to many people's request. That is the implementation of a new FM policy, that FM was in itself a commodity which had never been fully developed. We had a series of hearings and we worked very hard with the broadcasters to evolve a set of criteria so that we could have a diversity of choice between frequency modulation FM and AM.

We set out on a series of hearings, and these definitions mean, in effect, a fair amount of expenditure, and certainly a great deal of effort, on the part of new licensees to improve the total of radio broadcasting.

In the middle of this whole situation, along comes the radio arm of one of the stations involved in this situation, and, I believe, gets an increase in power, and suddenly lays down an FM signal in the heart of Toronto with a rock station which, when I listened to it, I could scarcely identify whether it was a Toronto or Buffalo station. I couldn't, as a matter of fact, because the ads I heard were all Toronto ones. There is no responsibility in terms of the area of Toronto, no responsibility towards the news of towards our FM objectives in this country. There are a series of salesmen, and when I visit my daughter off Eglinton I sit on the balcony of her house and see a car park with a placard in front of it which says «Rock 102.» It is all over the city, just like the plague. If you say they have a legitimate means, that is legitimate, okay. However, the fact is, it is not. I suppose it is good business.

Senator Manning: Mr. Boyle, in your assessment of the reasons why you feel that the Canadian advertisers should not be permitted to advertise on American stations and receive a tax write-off, do you give any weight to the fact that these border stations are providing a television service to many hundreds of thousands of Canadian viewers? Has that aspect been taken into account at all?

I ask this question because in the advertisers' submissions to us, this was a point which they stressed, that many thousands of Canadian viewers had access to the television service they were providing, for which they received no compensation unless they were permitted to sell advertising.

Mr. Boyle: We go back to the situation that they are not licensed for servicing in Canada. The logic of the licensing of a broadcasting station, in both the United States and Canada, is that within the area of its broadcast coverage in a given country where it is licensed it will afford a service to that particular country. We demand more than the FCC demands. We demand a good deal more because of the nature and the whole history of broadcasting.

I do not deny, and could not deny, that in the early days, say, back 25 years or so before the operation of our television, there developed this habit, in effect, in parts of the country where they could get off-air signals. It was there and it was the first television that came in, and I give them full credit for it.

The whole system had developed so much so now that if you are in the Toronto-Hamilton area—I do not want to make wild, sweeping assertions—I suspect the composition of all the Canadian stations is something like 90 per cent of any program that is available on those Buffalo stations which we are buying now. There may be some others. I presume there are some local news programs in Buffalo, but my understanding is that there is a very low rating in terms of that. There may be some syndicated programs, but the majority of programs are already purchased by our people in that area of Toronto-Hamilton, and certainly with CHCH, Channel 79, Global, CBC, CTV and some of the peripheral stations. You might not be able to secure it just at the time you want, you might have to adjust to another time to see a particular program, but as far as service is concerned there was no doubt at that time they were giving service.

Senator Manning: There must be a great number of Canadian viewers watching these TV stations, otherwise they would not be attractive to Canadian advertisers.

Mr. Boyle: That is quite true. Part of that is habit; it has been established, and there is no doubt about it. I admit that. Before we were in business, they were established in the operation. The Bellingham station was established for no other reason, I would presume, because there were 30,000-odd people in Bellingham, and putting a television station in there was obviously for the purpose of getting to the Canadian audience in Vancouver. The population of Pembina, North Dakota is about 400, but they have a great television station which I do not imagine the merchants in Pembina could support. It is directing itself specifically to Winnipeg.

Senator Everett: Are you talking about past history?

Mr. Boyle: Yes.

Senator Manning: I think you were right this morning when you referred to the revenue that accrued to these

American stations from Canadian advertising as a «wind-fall profit». They are in here and it is not something they are licensed for, and so on.

I would point out that their submission to us, at least, was that the availability of this amount of U.S. television to Canadian viewers, which apparently has wide acceptance because it is watched by so many people, is in a sense a windfall to Canada. We get that service without any cost on our part, which can only be offset by revenues through advertising.

Mr. Boyle: Excuse me, but we do pay for it. We pay, first of all, for the programs we buy for our own system.

Senator Manning: We do that anyway.

Mr. Boyle: We are paying for it in lost revenue. As a matter of fact, the advertising marketing magazine from the U.S.I. information agency points out the difference between the amount of television money that is spent per capita in the United States and in Canada. It is a fraction here, because they do not have to pay for it. It just comes flooding in, so that we are losing. We are paying in a lot of ways. I am sorry, but I cannot accept the business of there being a windfall benefit; except going back to the point in the early days, before our system was developed, there was a dependence on it.

However, there is another development happening now, and that is that we see repeater stations creeping up along the border, repeater stations of stations located farther in. As our population density increases along the border, it becomes more attractive for the stations in some of the more sparsely populated areas.

It is my understanding that in the West—I do not know whether it is in operation yet—at a place called Ogdensburg a repeater has popped up. I do not know the number of these, but Mr. Therrien has reported to me that there are several. They come along because they want to get close to the population. Our population is growing along the border in a much greater way than theirs. As I said before, and I hate to keep harping on this, but where they have population concentration it is fully protected—Detroit.

Senator Smith (Colchester): Mr. Boyle, a moment ago you said something about the concept of licensing. As I understood you, one of the fundamental concepts was that a station, either in the United States or Canada, would be licensed to serve a certain area within its own country. I am driven to assume because of what is happening, that in the United States there is no restriction within the licence given to a particular station, which would prevent it from trying to service Canada.

Mr. Boyle: I could not fully interpret for you the FCC rules. First of all, no one but an American can own the broadcasting station. In Canada foreign ownership is up to 20 per cent. Secondly, there has always been a licensing proposition that when we consider licensing of an area we do not take into account accidental spillover.

I would like to deviate for a moment. In terms of radio development in this country, it was a very naive and innocent idea that there would be a few high powered stations, and that private stations would have low powered frequencies. The result is that Americans took over practically all the good frequencies except a few clear channels. If you think of it from the Gulf north, each one of them would protect the stations south of them and let the sweep come. Any of you who go out to the West Coast or the East

Coast or on the Prairies at night can hear stations all across the United States sweeping across the country. In the meantime we have had to re-adjust our system accordingly ever since because of this pattern.

They are now talking about super power, and that is my point in terms of the situation of Buffalo. I would be shocked if the FCC would ever countenance the licensing of an American broadcasting station, owned by an American corporation, as to the legitimacy, in terms of it coming in here.

Senator Smith (Colchester): I assume the licences for the American stations do not impose a restriction saying, «You must not make this particular effort to service Canadians?»

Mr. Boyle: The licensing aspect comes up before the Department of Communications and the FCC. They work on the parameters of this, in terms of the allocation of the physical frequency.

Senator Smith (Colchester): I suppose the same principle applies to licensing in Canada; there is not a restriction added to the licence saying, «You must not develop your service in such a way as to serve the U.S.»?

Mr. Boyle: We have never encountered it except in the case of a station owned by an American network in Windsor which had to be reclaimed after the directive on foreign ownership by Parliament, and we moved the CBC in.

Historically, they have been taking some advertising. On the last decision of the CBC we pointed out to them that they should reduce that if possible.

We do not want to presume to take out all advertising if there is some valid reason for it. Certain kinds of advertising have come up before the Commission before, and to reduce that as a source of irritation, we have pointed out this particular fact.

Senator Smith (Colchester): Mr. Boyle has also made a number of references to its being illegal for the U.S. television stations to serve Canada. Obviously, it is not illegal according to the United States law, as I followed his answers of a moment ago. By what Canadian law is it illegal?

Mr. Boyle: Perhaps I am stretching the word «illegal.» I was basing my statement on the fact that a station is licensed to serve within the continental boundaries of its own country. It is not licensed to serve outside those. It is certainly not licensed in Canada to serve outside, and to my knowledge it is not in the United States either. Therefore, when I stretched the word «legal» I was saying, in effect, that I find it morally repugnant that we go on and do this.

Senator Smith (Colchester): I see. Thank you.

Senator Everett: Mr. Boyle, I was interested in the «windfall profits». Have you any idea of the magnitude of them?

Mr. Boyle: Windfall profits?

Senator Everett: I was using your term about windfall profits which the American border stations are enjoying.

Mr. Boyle: The figures are difficult, because the television stations guard their grosses jealously. In effect, each station tries to estimate what the others are doing, really.

One estimate was given to me as being roughly, they thought—and this was two years ago—\$18.6 million.

Senator Everett: That was for how many stations?

Mr. Boyle: That is only from the Buffalo stations and KVOS. I know, for instance, that one station in Watertown began with \$50,000, because the manager told me that at that point. I am certain that by any appearance, if you looked at that now, it must have tripled.

The Chairman: That is gross revenue, is it?

Mr. Boyle: Were you asking about the gross revenues of all the stations across the country? The gross revenues achieved by the American stations selling in Canada?

Senator Everett: No, I was talking about the net profit to the stations, what you called the «windfall profits.»

Mr. Boyle: A lady in Buffalo sent me a copy of an annual report of one of the Buffalo stations. I forget which station it was. She said that she was a shareholder, and that it had a net profit of \$2.1 million. That was only one of the stations. She was assuming that roughly 40 per cent of that would come out of Canada.

Senator Everett: Was she competent to make that assumption?

Mr. Boyle: Well, she was a shareholder and had evidently received an annual report from one of the stations.

Senator Everett: You get the financial statements of the Canadians stations, I assume, do you?

Mr. Boyle: Yes, we do.

Senator Everett: Would those stations be selling the majority of their time in the Toronto market? I am given to understand that the stations are overwhelmed with the business they have there right now and that it is most difficult to buy other than peripheral time on a Toronto station.

Mr. Boyle: Well, Mr. Hart knows more about that than I do, and I would fall back on him for backup support, if you don't mind, Mr. Chairman. I find that difficult to believe, though. Perhaps at certain times of the year CFTO would be difficult to buy—for example, at Christmas or at certain other times of the year; but, certainly, the capacity of Global, of CHCH, Hamilton, and of Channel 79—particularly of Channel 79 and the Global network—has not even been tapped. While at the beginning it was a matter of ratings on the Global situation, Mr. Slaight testified before you that the ratings have now come up to a reasonable degree where he would be competitive. If I remember correctly from that testimony, and I only glanced at it superficially, the fact was that in terms of the competition, where the money was coming from, a very large proportion of the money which was in Buffalo was not coming in the prime time period but was coming in the early evening period, in that period from four to seven.

The Chairman: We have information on that, senator; it is in the record. I think we have covered the subject pretty well. I should like to thank Mr. Boyle and his associates for the contribution.

Mr. Boyle: Thank you, Mr. Chairman.

The Chairman: I think the committee should meet tomorrow morning in case we are ready to talk about a

summation and a possible report. I would like to have the committee on notice that there may be deliberations tomorrow morning at 9.30.

The committee adjourned.

APPENDIX "A"

THE CANADIAN-U.S. BORDER TELEVISION PROBLEM AND ALTERNATIVE MEANS FOR ACHIEVING OBJECTIVES OF THE CANADIAN BROADCASTING SYSTEM

A Proposal by U.S. Border Television Stations

The Canadian-U.S.A. intergovernmental meetings of January 13, 1976 on the subject of commercial deletion ended with an agreement that «further meetings would take place in the near future between appropriate Canadian and U.S.A. officials to consider alternative means for achieving the objectives of the Canadian broadcasting system.» The present memorandum outlines a proposal by U.S. border stations which, it is hoped, might be considered at those further meetings.

This proposal, we believe, should be considered in the context of the overall relationship between the Canadian and the U.S. television systems. The problem has many dimensions, because those systems help and hurt each other in many ways. From a Canadian point of view the presence of service from U.S. border stations has a number of competitive effects on the Canadian television industry. The popularity of U.S. stations in major Canadian communities necessarily affects the audiences and revenues of Canadian stations. The availability of relatively inexpensive and highly popular U.S. programming plays an important role in maintaining the profitability of Canadian stations. These factors constitute an important set of problems from the point of view of those who seek to develop the Canadian system. There are, in addition, differences in the regulatory requirements, customary standards with respect to advertising and program content, and selling practices that create problems when stations of one country compete with those of the other.

On the other hand, the programming of U.S. producers is quite highly valued by Canadian broadcasters, and the service of U.S. stations by Canadian viewers. It is generally undisputed that the development of the Canadian cable industry—the most advanced in the world—is largely dependent upon its ability to provide Canadians with access to the signals of U.S. stations.

From a U.S. point of view there are a number of analogous problems. Probably because of the presence of U.S. border service, Canadian stations and networks have made a practice of pre-releasing U.S. programs and feature films before they are broadcast by U.S. stations. This becomes a problem for U.S. stations when the signals of Canadian stations invade U.S. markets either via cable or off-the-air. In addition, some of the measures currently contemplated in Canada designed to deal with problems created by the presence of U.S. border service in Canada, have been viewed not only as damaging to U.S. interests, but as unfair and have consequently lead to an escalation of tensions between the two countries.

We do not suggest that all of these problems can be solved by negotiation or otherwise, but they are all closely related. To the extent that they can be resolved by negotiations, we think that they should.

We recognize the strong feelings of Canadians that have lead to Bill C-58, commercial deletion, and other policies. Canadians should also recognize the strong feelings in the United States on these subjects. If the situation deteriora-

tes, there is a real possibility of retaliation of various kinds and counter-reaction, to the serious detriment of the relations between the two countries. Our proposal is offered as a beginning, and in a constructive spirit, recognizing the needs of both sides and seeking fairness for both sides. In the same spirit we stress our willingness to discuss any other problems in the same fields that Canadian authorities may wish to raise and proposals they may wish to make.

We believe there are more direct ways to reconcile Canada's use of U.S. border television services and the objective of strengthening the Canadian broadcasting system than those already proposed. In the event that neither Bill C-58 nor commercial deletion is implemented, the U.S. border stations listed below will take the following steps:

(1) Each will establish a taxable presence in Canada in such manner as to subject its income from Canadian advertisers to Canadian federal and provincial income tax, to the degree permitted by the laws of both Canada and the U.S. without double taxation*

*We would not regard any tax penalty that might be suffered as a result of Canada's 15 per cent withholding tax on dividends repatriated to a foreign country by a Canadian subsidiary of a foreign corporation (or the equivalent tax on the net income of the Canadian branch of a foreign corporation) as «double taxation» for this purpose. The proposal is, however, predicated on the assumption that (1) any necessary approval of Canadian authorities under Canada's Foreign Investment Review Act could be obtained, and (2) the establishment of a taxable presence in Canada would not itself be treated as a taxable event, for purposes of U.S. capital gains tax, by U.S. authorities. In these and other respects, implementation of the proposal would depend upon favorable tax and other rulings by Canadian and U.S. authorities.

(2) As an additional expense of doing business, each U.S. border station or its taxable Canadian unit will pay annually as a business expense a portion of its net income from Canadian advertisers into a fund to be administered by the Canadian government or its designee, for the purpose of strengthening the Canadian broadcasting system (whether by extension of service, stimulation of Canadian program production or otherwise) and/or strengthening other Canadian creative and cultural resources relevant to broadcasting, provided and to the extent that such payment is treated as currently deductible for purposes of any applicable U.S. or Canadian Income Tax.

These proposals are not intended to «repatriate» to Canada the total revenues that U.S. border stations now earn from services to Canadian advertisers. We believe that U.S. border stations are entitled to compensation for their services to Canada, and our proposals reflect that belief. On the other hand, Bill C-58 and commercial deletion (separately or in combination) might well succeed in eliminating the Canadian revenues of U.S. border stations without adding more than a fraction of the total eliminated to the revenues of Canadian stations. The amounts generated by our proposals would flow directly to the appropriate Canadian governmental or other authorities and would be immediately available for expenditure in support of the objectives of the Canadian broadcasting system. There will of course be administrative difficulties in achieving this objective, but we are confident they can be surmounted. Finally, our proposals offer a means of resolving the problems at which Bill C-58 and commercial deletion are aimed without violating principles of vital importance to the United States.

Stations that subscribe to the above proposal are as follows:

Station	Community	Licensee
WBEN-TV	Buffalo, New York	WBEN, Inc.
WGR-TV	Buffalo, New York	Taft Broadcasting Company
WKBW-TV	Buffalo, New York	Capital Cities Communications, Inc.
KVOS-TV	Bellingham, Washington	KVOS Television Corporation
WICU-TV	Erie, Pennsylvania	Great Lakes Communications, Inc.
WSEE-TV	Erie, Pennsylvania	Great Lakes Television Inc.
WWNY-TV	Watertown, New York	The Brockway Company
WPTZ	Plattsburgh, New York	Rollins Telecasting, Inc.
WCAX-TV	Burlington, Vermont	Mt. Mansfield Television, Inc.

Note 1: WGR-TV's commitment is subject to the condition that its effectuation is consistent with and does not adversely affect Taft Broadcasting Company's ability to perform under its loan agreements, indentures, guarantees, mortgage notes and other instruments and agreements by which it is bound.

Note 2: There are other U.S. border stations whose revenues from Canadian advertisers are so small as to render the establishment and operation of a Canadian branch or subsidiary uneconomic. Many, if not most, of such stations would be prepared to subscribe to the present proposal when and if their revenues from Canadian advertisers exceed some reasonable threshold.

Note 3: The many variables involved make it difficult to quantify the results that might flow from implementation of the proposal made above. In addition, there are limits on the degree to which stations in direct competition with each other can properly exchange, or would wish to exchange, information as to their revenues and expenses. However, the Federal Communications Commission has collected information concerning the 1974 Canadian revenues and selling expenses of U.S. border stations, including the stations that subscribe to this proposal and the following additional stations: WSEE-TV and WJET-TV, Erie, Pennsylvania; WABI-TV and WLBZ-TV, Bangor, Maine; WAGM-TV, Presque Isle, Maine; WCHS-TV, Portland, Maine; WDAZ-TV, Devils Lake, North Dakota; and KCFW-TV, Kalispell, Montana. The FCC has made relevant portions of that data available to us. On the basis of that date, we can state the following:

(a) Gross Canadian advertising revenues of the noted border stations for calendar 1974 were slightly less than \$18 million. Of this amount, slightly less than \$16.5 million were earned by the three Buffalo stations and KVOS-TV, Bellingham. In the same year, those four stations paid commissions to Canadian advertising agencies and sales representatives totalling \$3.33 million.

(b) There is no prescribed formula for the allocation of taxable income and deductible expense between a U.S. parent and a Canadian subsidiary (or a U.S. Company

and a Canadian branch). The basic standard under U.S. law is that the allocation must reflect the costs and payments that would be made if the subsidiary (or branch) were an uncontrolled entity dealing at arms length with the U.S. company. In a 1943 case involving U.S. taxes imposed on Station CKLW, Windsor, U.S. taxing authorities accepted a formula that attributed to the U.S. subsidiary of a Canadian parent the gross revenues derived from the sale of time to U.S. advertisers and allowed the U.S. subsidiary to deduct (i) its direct selling and other expenses and (ii) a proportion of the common expenses incurred in the rendition of services to advertisers (program expense, technical expense, etc.) equal to the proportion of net revenues earned from all advertisers (after commissions to agencies and sales representatives) that were derived from U.S. advertisers. *Essex Broadcasters, Inc.*, 2 T.C. 523. If the approval of taxing authorities in both countries can be obtained (so as to avoid double taxation), the Buffalo stations and KVOS-TV would propose to apply such a formula. In 1974, Canadian advertisers supplied some 90 per cent of the net revenues of KVOS-TV and 30 per cent of the net revenues of the Buffalo stations.

(c) If the *Essex* formula were applied to the 1974 Canadian revenues of the four stations noted and the operating expenses of the four Canadian subsidiaries (or branches) were assumed to approximate \$1 million, then (at a 48 per cent corporate income tax rate) the four stations would have paid some \$2.4 million in Canadian income tax, and would have received \$7.2* million in payment of their Canadian operations' share of common expenses. The Canadian subsidiaries (or branches) would have realized \$2.6 million in after-tax income. If left in Canada, this amount would not have remained idle; obviously, it would have been invested in some form of Canadian security or business venture. If repatriated to the U.S., it would at a minimum have been subject to the 15 per cent Canadian withholding tax on corporate dividends (approximately \$400,000).

(d) Considered in other terms, on the assumptions stated above and on the basis of 1974 figures, the proposal to create a «taxable presence» in Canada would have resulted in a minimum of 43 per cent of the gross Canadian revenues of the Buffalo stations and KVOS-TV remaining in Canada, in the form of commissions to agencies and sales representatives, operating expenses, Federal and Provincial Income Tax and withholding tax. In the event that the after-tax income of the relevant Canadian subsidiaries (or branches) had remained in Canada, the total proportion of gross Canadian income expended or invested in Canada would rise to 56 per cent.

(e) We stress again that the figures given are approximations and that the use of the approach we have described is dependent on the approval of U.S. and Canadian taxing authorities.

*This figure was computed by applying each station's percentage of net Canadian revenues for 1974 to that station's non-selling expenses for the same year.

APPENDIX "B"

SUMMARY OF OTTAWA MEETING BETWEEN U.S. T.V. BROADCASTERS AND CRTC

U.S. Delegation:

Thomas Murphy—Capital Cities

Richard Wolfson—Bellingham

Leslie Arries—WBEN

Joel Rosenbloom—Capital Cities and Mt. Mansfield

Charles Goodell—Capital Cities

Dean Burch—Capital Cities

Alan O'Brien—Buffalo and Burlington-Plattsburgh stations

Royce Frith—Bellingham

Canadian Delegation:

Harry Boyle—Chairman, CRTC

John Hilton—Commissioner, CRTC

Michael Shoemaker—Director-General, CRTC

Chris Johnston—General Counsel, CRTC

Ralph Hart—Special Assistant, CRT

Pierre Billon—Policy Staff, CRTC

Andy Watt—Department of Communications

The meeting was opened by Chairman Boyle. Each of the delegations was introduced once again. O'Brien made a brief introduction of Murphy. Murphy thanked the Canadians for the opportunity of meeting with them and emphasized the great importance of this issue to both sides. He then read the U.S. proposal beginning at the middle of page 3 through the middle of page 4. The written proposal was given to the Canadian delegation and they elected to recess in order to read and discuss the document. They returned in about 50 minutes. The following points were raised in this order:

1. Boyle noted the following sentence on page 3 of the proposal «In the event that neither Bill C-58 nor commercial deletion is implemented, the U.S. border stations listed below will take the following steps.» Boyle asked if that meant that C-58 and deletion were linked together as a part of the overall proposal. Murphy responded «yes it does». Goodell explained further that this proposal involved both C-58 and deletion but we were not closing the door to any counter proposals which the Canadian might make. He indicated that it was our wish to put these suggestions on the table for discussion. Whatever suggestions the Canadians had would be considered along with our proposal when the Governments met again.

2. Boyle asked about the words «taxable presence». Rosenbloom and other responded that those words were to include whatever entity was necessary to subject income derived from Canadian advertising to Canadian taxes. This would include a subsidiary, a branch or some other type of organization. There were several additional questions directed at how this would work in detail. The U.S.

delegation pointed out that all details of the proposal have not been worked out, but that we were sure it could be done.

3. Hilton asked if this would not require the approval of the tax authorities in each country and did we have assurance that IRS would approve? Goodell and others responded that it would require the approval of the tax authorities in each country, but there was precedent for such approval. In addition, there is an agreement between Canada and the U.S. to negotiate in order to avoid any double taxation. We have no advance approval.

4. As an extension of the discussion with reference to the approval by the respective tax authorities, the Essex formula was described in general by Goodell. Hilton exhibited considerable interest in that formula and asked several questions with reference to the Detroit-Windsor arrangement.

5. Hilton asked how serious the reservations were in the notes on page 6. He was particularly interested in note 1 with reference to WGR-TV. Rosenbloom explained in greater detail the requirement in many loan agreements for approval by the lender for commitments of this nature. He noted that any lender would be insane if he refused to approve of an arrangement which would be required for the corporation to go on deriving substantial income.

6. Hart asked if we could give them an idea of how much we were talking about in the fund. Had we agreed on a percentage? Goodell explained that the group had not agreed on a percentage. We felt that such a matter should only be addressed if the Canadians indicated an interest in our overall proposal. We would be glad to receive any suggestions from them, but the individual stations would have to meet first before we could be more specific. We pointed out that any amount going into the fund would be in addition to taxes paid by the Canadian entity and obviously would have to be limited to what we could afford to pay and remain viable. In several exchanges it was clarified that whatever percentage was paid into the fund would be a percentage of net income.

7. Shoemaker began a question as follows: «Since we are only a 'pass-through agent,' I'd like to be sure we understand fully your proposal.»

8. Shoemaker asked if the Canadian entity set up to pay Canadian taxes would pay Canadian taxes on non-broadcasting income. We replied that it would and if such an activity was now in existence they probably were paying Canadian taxes. He then asked if they would pay Canadian taxes on all «sources of income». Rosenbloom replied that «source» is a term with special meaning in tax law, and that we preferred to avoid entanglement in technicalities, but that Canadian taxes would be paid by the new affiliated entities on non-broadcast income in the same manner as any other corporate entity. Wolfson pointed out that Wimetco was now paying Canadian taxes on income from film and other non-broadcast activities.

9. Hilton, Shoemaker and Johnston all participated in a series of questions with reference to the possibility that net Canadian income could be controlled by the American stations. Could they not arrange that most of their expen-

ses were allocated to the Canadian Company, thus reducing the taxable income in Canada? We responded that Canadian tax authorities would monitor this and should be able to prevent any such distortions. We assured them that we would cooperate in providing all information necessary to insure that allocations were legitimate and fair to both countries. We are making the offer in good faith. Shoemaker commented that he was not questioning the good faith of those in the room, but whatever arrangements are made may well outlive us all. Frith gave a rather extensive exposition on the problems of dealing with net income. He indicated a preference for gross income and opined the Canadians had a legitimate point in questioning a percentage of net income. Frith further said «I believe your point is cogent. There is an internal incoherence in our proposal.»

10. Hilton asked what the differences were between this proposal for a fund and the proposal made by KVOS to the Parliamentary Committee. That proposal apparently involved giving 25 per cent of gross income into a fund. Goodell explained that our proposal had no relationship whatsoever to the KVOS proposal. We had not resolved a specific percentage to be paid into the fund and, in any event, our proposal involves payment of a percentage of net income, not gross income. Frith commented at some length about the KVOS proposal, but it was established that the other stations had nothing to do with the KVOS proposal.

11. Hilton asked a series of questions, directed primarily at Frith, with reference to the method of handling any fund through a Canadian agency. No one could cite an existing analogy to this proposal. Frith at first talked about the payment being in the nature of a «contribution» and suggested that the Canadians could set up a foundation or a quasi-government agency to distribute the funds to promote Canadian television. Shoemaker asked if, for example, payments could be made to Heritage Canada, a non-profit Canadian foundation. Frith thereafter clarified that the payment would have to be non-voluntary and was really more like a «license fee» as a condition of doing business in Canada. The Canadians made it clear that they were not questioning the requirement that such payments be deductible in the U.S. Hilton stated: «I recognize that what I am asking about is our problem, not yours». We concluded this discussion with the statement that we felt it would be presumptuous on our part to try to tell Canadians how to handle the Canadian funding and that we had great confidence in their ingenuity.

12. Shoemaker asked if our proposal would apply to all border stations. Rosenbloom indicated that our group represented 99 per cent of the income derived from Canada by U.S. border stations. He cited the example of a small Montana station which has a total of \$5,000 income derived from Canada. It would hardly pay them to set up a taxable presence in Canada. We pointed out that this, however, was a matter which the Canadians could enforce themselves. They could require deletion of commercials for any border station which failed to comply.

13. It was pointed out that all income information would be made available to the Canadian tax authorities by each of the border stations individually.

14. Hilton asked if full disclosure of such income information in Canada would cause the U.S. companies any problems. He indicated that full disclosure would be requi-

red in any activity involving the public interest. We replied that such disclosure would cause us no problem.

15. At this point there appeared to be no further questions and Boyle began a concluding statement. I paraphrase the statement as follows:

You appreciate my position. We here are only part of the Commission. I am wondering now whether I will have five more Commissioners by the 1st of April. And, incidentally, they will be a majority of the Commission.

I'd like to say a few things that are, perhaps of a philosophical nature. One of the things I find difficult in your proposal is that it may cause complications in what we would administer. We have an open approach of the CRTC in its relationship to our stations, a pretty open one. We have a requirement of hearings in many cases, which can be cumbersome. But I think it is pretty democratic. We have many activist groups in this country as you do. They are strong and growing stronger. We have to deal with social concerns. We have a recent judge's decision which makes that very clear. I have difficulty with the word «presence», as I indicated earlier. That's why I raised it. We discussed «tax presence», but I have concern about the word «presence» without the word «taxable». You know we have a big Northwest territory, bigger than Texas. There are only 40,000 people there, but they demand and they get T.V.—all of them. The funds come out of our system. CBC, of course, gets some government funds, but for the most part the funds come out of our system. It may be a matter of semantics, but the language gives me a certain pause. It would appear that if your proposal were adopted, your «presence» might be strengthened, which is the opposite of what we are trying to achieve. You might have even greater visibility than you have now. We might be selling our system down the drain.

We would probably have to go through our regular public interest procedures. The licensee stations would have to be brought into this. They are involved and they are affected. They could involve rather extensive hearings. I am not sure. In any event, the public interest groups would have to be heard in some fashion.

I am not saying that this matter doesn't have to be solved. It is a very volatile thing here in Canada and I know you have your problems too, or we would not be here today. I want you to know that there was a misunderstanding on the first meeting, January 13th. I did not realize that it was going to be a negotiation or discussion at a higher level. They called me a week before the meeting when I already had hearings scheduled for January 13th in Toronto. I had no intention of trying to avoid the meeting or trying to create any additional problems. It was a misunderstanding.

It is a long distance sometimes between Ottawa and Washington. We can travel back and forth very quickly, but there is a long distance sometimes when it comes to problems. I recognize that this is a problem to solve and it can escalate very seriously. Our two countries have to try to solve their problems, but they are often difficult, as in this case.

16. Frith at this point commented that he understood what Boyle was talking about. In a sense, however, the American «presence» is already there. We obviously do not want to remove that presence entirely or we would not be here. You might look at it from the viewpoint that we are proposing to keep our «presence» in a form which will help eliminate some of the undesirable aspects of that presence in Canada. Our proposed «tax presence» is a tool to try to get rid of the undesirable aspects from the Canadian viewpoint. Boyle merely nodded that he understood.

17. Shoemaker at this point asked if we could document our statement on page 5 that C-58 and deletion «might well succeed in eliminating the Canadian revenues of U.S. border stations without adding more than a fraction of the total eliminated to the revenues of Canadian stations». Rosenbloom replied that we could not document it, but it seemed self-evident to us and the many Canadian advertisers and agencies to whom we have spoken. U.S. stations now attract 50 per cent of the viewing in Vancouver and 40-45 per cent of the viewing in Toronto. C-58 and deletion would not change this. Hence, eliminating U.S. stations as advertising vehicles would cripple television as an adverti-

sing medium in two of Canada's largest cities, driving many advertisers to other media.

18. Shoemaker asked if we had any objections to their distributing our proposal to other Canadian agencies who are involved in the matter. We said we would be delighted to have them distribute it to whomever they deemed appropriate.

19. We indicated to the Canadians that we had declined to comment to any press with reference to the nature of our proposal and that was our intention when we left the meeting. We noted the presence of T.V. cameras before the meeting, taking silent film. Boyle said «I thought those were yours.» We established that it was a Canadian station that had been given permission to film by Shoemaker. We emphasized that that did not concern us at all, but that we wanted them to know that we were not out seeking publicity. We were submitting a private proposal for negotiation by the Two Governments at a later time. Frith told the story of Senator Green of Rhode Island who, when asked a question by a reporter replied, «No comment. And that's off the record.» Boyle said that, as an ex-newspaperman, they would get nothing out of him.

APPENDIX «C»

COMMUNIQUE

Representatives of the Governments of Canada and the United States met January 13 in Ottawa at the request of the United States State Department, to consider the views of the United States government concerning the deletion from Canadian cable television transmissions of commercial messages originating from United States broadcasting sources, as required by the Canadian Radio-Television Commission. The implications of this requirement were discussed by Canadian officials in the context of the economic activities in Canada of U.S.A. border stations. In addition, mutual regulatory activities and policies as they affect transborder broadcasting and cable issues were comprehensively discussed.

The Canadian delegation was headed by Mr. Glen S. Shortliffe, Director, United States Division, Department of External Affairs and included officials of the Department of Communications and officials from the Canadian Radio-Television Commission. The United States delegation was

led by Mr. Richard D. Vine, Deputy Assistant Secretary (Canadian Affairs), Department of State, and included Mr. Richard E. Wiley, Chairman of the Federal Communications Commission, as well as officials from the Department of State and the Federal Communications Commission.

There was a full and constructive exchange on the subject of commercial deletion and concerning the activities of border stations, including detailed presentations by both sides as to their concerns. Officials took note of the respective positions of each side and will be reporting these as appropriate to their governments and the respective Commissions. It was agreed that further meetings would take place in the near future between appropriate Canadian and U.S.A. officials to consider alternative means for achieving the objectives of the Canadian broadcasting system. Obviously officials in their talks would continue to be guided by the policies of their respective governments.



Government
Publications

FIRST SESSION—THIRTIETH PARLIAMENT
1974-75-76

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
**BANKING, TRADE AND
COMMERCE**

The Honourable SALTER A. HAYDEN, *Chairman*

Issue No. 94

TUESDAY, JUNE 22, 1976

Seventh & Final Proceedings on Bill C-58 intituled:

«An Act to amend the Income Tax Act»

REPORT OF THE COMMITTEE

(Witnesses—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Austin	Lafond
Barrow	Laird
Beaubien	Lang
Buckwold	Macnaughton
Connolly	Manning
(Ottawa West)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
*Flynn	Smith
Haig	(Colchester)
Hayden	Sullivan
Hays	Walker—(20)

**Ex officio* members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, April 6, 1976.

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Davey, seconded by the Honourable Senator Lang, for the second reading of the Bill C-58, intituled: "An Act to amend the Income Tax Act".

After debate, and—

The question being put on the motion,

The Senate divided and the names being called they were taken down as follows:—

YEAS

The Honourable Senators

Argue	Lafond
Austin	Langlois
Benidickson	Lefrançois
Bourget	Lucien
Buckwold	Macnaughton
Cameron	McDonald
Carter	McElman
Cottreau	McGrand
Croll	Michaud
Davey	Molgat
Denis	Neiman
Duggan	Norrie
Eudes	Petten
Forsey	Riel
Fournier (<i>de Lanaudière</i>)	Riley
Fournier (<i>Restigouche-Gloucester</i>)	Robichaud
Giguère	Rowe
Godfrey	Smith (<i>Queens-Shelburne</i>)
Goldenberg	Sparrow
Graham	van Roggen—40.

NAYS

The Honourable Senators

Choquette	Macdonald
Cook	McIlraith
Desruisseaux	McNamara
Flynn	Phillips—9.
Grosart	

So it was resolved in the affirmative.

The Bill was then read the second time, on division.

The Honourable Senator Davey moved, seconded by the Honourable Senator Sparrow, that the Bill be

referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Tuesday, June 22, 1976

(132)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade & Commerce met this day at 8:00 p.m., *in camera*.

SUBJECT: *Bill C-58—"An Act to amend the Income Tax Act"*.

Present: The Honourable Senators Hayden (*Chairman*), Austin, Beaubien, Cook, Desruisseaux, Flynn, Lafond, Lang, Macnaughton, McIlraith, Molson and Walker. (12)

Present, not of the Committee: The Honourable Senators Davey and McElman. (2)

In Attendance: Mr. R. L. duPlessis, Law Clerk and Parliamentary Counsel.

The Committee proceeded to the discussion of a draft report respecting the above Bill as submitted by the sub-committee constituted to study same.

Following the above discussion, it was *Resolved*, upon motion of the Honourable Senator Macnaughton, that the Report as amended in Committee be approved. The question being put, the Committee divided as follows:

YEAS: 7

NAYS: 1

The motion was declared *carried*.

At 10:10 p.m., the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

Report of the Committee

Tuesday, June 22, 1976.

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-58, intituled: "An Act to amend the Income Tax Act", has, in obedience to the order of reference of Tuesday, April 6, 1976, examined the said bill and, for the reasons hereinafter mentioned, now reports the same with amendments.

Bill C-58 is an example of use of the Income Tax Act to achieve purposes unrelated to fiscal policy.

In 1965, the act was amended¹ to exclude as deductible for tax purposes expenses of an advertiser for space in an issue of a non-Canadian newspaper or periodical as defined in the Act.² An important exception³ to this rule was made in the case of newspapers or periodicals edited in whole or in part in Canada and printed and published in Canada prior to April 26, 1965. The principal beneficiaries of this exemption were *Time Canada* and *Reader's Digest*.

Bill C-58 would remove this exemption so that in order for advertising expenses to qualify as deductions, a periodical must meet the criteria set forth in the act requiring, amongst other things, that a newspaper or periodical be 75 per cent owned by Canadians and that it be edited, printed and published in Canada. The most important requirement, however, is that the newspaper or periodical cannot be "substantially the same" as a periodical that is printed, edited or published outside Canada.⁴

Bill C-58 would also remove the exemption in the act in respect of advertisements in catalogues and publications the function of which is to promote the fine arts, letters, scholarship or religion⁵ under which publications such as *MD* magazine have heretofore qualified.

Finally, the bill would introduce non-deductibility for expenses for advertisements directed primarily to Canadians broadcast by a foreign broadcasting undertaking.

While your committee supports what has been stated to be the objective of the bill, namely, the promotion of stronger publishing and broadcasting industries in

Canada, it has reservations both as to whether the Income Tax Act is the proper vehicle for accomplishing these objectives and as to whether the measures proposed are likely to achieve the degree of effectiveness contemplated by the government ministers supporting the bill who testified before your committee.

There are, however, several areas where your committee considers amendments to the bill are required. One concerns the interpretation of the words "substantially the same" referred to above and results in part from the actions and statements of the Minister of National Revenue arising out of *Time Canada's* attempt to clarify its status under the act following introduction of the bill. Another concerns the manner in which the decision to bring into force the provisions relating to the broadcasting industry is to be made.

In the last analysis, the meaning of the words in statutes is something to be decided by the courts. Ordinarily, however, judicial interpretations of provisions of the Income Tax Act only result from the taxpayer having done something which is disputed by the Minister of National Revenue. However, the department has adopted a policy which has been in effect for some years whereby a taxpayer may obtain an advance ruling on a question of interpretation.⁶ These rulings, which are stated to be binding on the minister, are obviously of great assistance to a taxpayer in that he is able to ascertain in advance how a proposed course of action may be dealt with under the act. The alternative is to proceed without a ruling and risk an adverse determination by the courts after the fact.

It must be assumed that, in giving rulings of this nature, departmental officials should attempt to place themselves in the position of a court faced with the same question. In other words, the arguments on both sides should be weighed and an objective decision reached in the light of reason and existing jurisprudence. The purpose is not, on an application for a ruling, to give a decision which is in effect an assertion of the position which would be most favourable to the minister.

In the case of the desire of the affected periodicals to obtain an interpretation of the words "substantially the same" it could be argued that, although the periodicals were themselves Canadian taxpayers, an application for a ruling could only be made by a taxpayer in whose direct interest it was to have a decision, i.e., a taxpayer who was an advertiser in that periodical. Discussions between the periodicals and the department as to the interpretation of the words

¹ s. 19

² sub-s. 19(5)

³ sub-s. 19(2)

⁴ clause 19(5)(a)(ii)(F)

⁵ sub-s. 19(4)

⁶ See Information Circular, Department of Revenue, Taxation, No. 70/6, September 14, 1970.

may, therefore, have proceeded on a basis outside the normal ruling application procedure. However, in your committee's opinion, the approach of the minister and his officials in that case should have been no different from their approach in dealing with a formal ruling application by a taxpayer directly affected.

On October 23, 1975, after several meetings with *Time Canada*, the Minister of National Revenue announced in a press release that at least 80 per cent of an issue of a periodical published in Canada, excluding advertising, had to be different from the contents of an issue published outside Canada. He also announced that, should this interpretation be successfully challenged in the courts, he would introduce legislation to re-instate his interpretation.

From the evidence before it, and in the light of existing jurisprudence, your committee has regretfully concluded that in developing the "at least 80 per cent rule" it seems apparent that, far from attempting to give an impartial interpretation, the minister was attempting to amend clause 19(5)(a)(ii)(F) of the act to conform with the views of the government. Amendments, in your committee's opinion, are a matter for Parliament, not the executive branch of government.

The rule of law and the supremacy of Parliament are surely two of our most cherished institutions. They should not be allowed to give way to ministerial zeal.

Your committee is of the view that, should any periodical at any future time wish to attempt to qualify as a Canadian periodical, it should have the benefit of a fair and impartial means of obtaining a decision in keeping with judicial traditions in this country. Your committee therefore recommends that the bill be amended so as to oblige the Minister of National Revenue to submit the issue to the courts for determination.

A side issue which has developed as a result of delays in passage of the bill is that the proposed effective date of the provisions affecting periodicals (*January 1, 1976*) has now passed. In order to remove any suggestion of retroactivity, a fundamentally repugnant notion which should be resorted to only in cases of extreme need, your committee recommends that the effective date be changed to January 1, 1977.

Dealing with your committee's second principal objection, in connection with the bringing into force of the broadcasting provisions, your committee notes that the Secretary of State in an announcement in the House of Commons on January 23, 1975⁷ stated that, before bringing in provisions to discourage Canadian advertisers from advertising in U.S. border stations, it would be necessary to make sure that sufficient advertising time was available on Canadian stations. Bill C-58 provides that these provisions shall be brought into force on proclamation, thus leaving the timing to the executive branch of the government. Another method of proceeding might have been to defer introduction of the legislation until it was clear that all the factors, including availability of time on Canadian stations, indicated that the provisions were warranted. The government has chosen a course whereby the provisions should be enacted now but brought into effect at a later date. Your committee has no objection

to this procedure provided that the timing of the provisions is decided by Parliament. It accordingly recommends that the bill be amended so that the broadcasting provisions shall be brought into effect by a resolution of the House of Commons concurred in by the Senate.

Your committee is not convinced that removal of the exemption in respect of publications such as *MD* magazine will assist the objectives of the bill and it therefore recommends partial restoration of the provisions of the act in that regard which the bill would have removed.

For the foregoing reasons, your committee recommends the following amendments to Bill C-58:

1. *Page 1*: Strike out line 12 and substitute therefor the following:

"after December 31, 1976 for an advertise—".

2. *Page 1*: Strike out line 16 and substitute therefor the following:

"repealed and the following substituted therefor:

"(4) Subsection (1) does not apply with respect to an advertisement in any publication the principal function of which is the encouragement, promotion or development of the fine arts, letters, scholarship or religion."

3. *Page 1*: Strike out line 17 and substitute therefor the following:

"3. (1) The said Act is further amended by"

4. *Page 1*: Strike out line 20 and substitute therefor the following:

"19.1 (1) In this section, "publisher" means a person who has or proposes to have the exclusive right to produce and publish issues of a newspaper or periodical.

(2) For the purposes of this section, the word "taxpayer" in section 173 shall be deemed to include a publisher.

(3) The Minister, at the request of a publisher, shall enter into an agreement with that publisher pursuant to section 173 for the purpose of having determined by the Court the interpretation of clause 19(5)(a)(ii)(F) in relation to one or more issues of proposed issues of a newspaper or periodical that that publisher has or proposes to have the exclusive right to produce and publish in Canada."

(2) The said Act is further amended by adding thereto immediately after section 19.1, added by subsection (1), the following:

"19.2 (1) Subject to subsection (2), in "

5. *Page 2*: Strike out lines 32 to 34 inclusive and substitute therefor the following:

"on the first day of January, 1977.

(2) Subsection 3(2) shall come into force on such day as may be fixed by a motion taken up and considered by the House of Commons that is adopted by the House and concurred in by the Senate pursuant to subsections (3) and (4).

(3) If a motion taken up and considered by the House of Commons pursuant to subsection (2) is adopted by the House, with or without amendments, a message shall be sent to the Senate informing the Senate that

the motion has been so adopted and requesting that the motion be concurred in by the Senate.

(4) The Senate shall, within the first fifteen days next after receipt by it of a request from the House of Commons pursuant to subsection (3) that the Senate is sitting, in accordance with the Rules of the Senate, take up and consider the motion adopted by the House of Commons that is the subject of the request.

(5) If the Senate, pursuant to a request from the House of Commons, concurs in a motion adopted by the House as provided in this section, subsection 3(2) shall come into force on the day that is specified in the motion or on the day on which the Senate concurs in the motion, whichever is the later."

During the course of your Committee's hearings a question arose as to the effect of Bill C-58 and the "commercial deletion" policy of the CRTC on relations with the United States. While your Committee considers that the strain on Canada-U.S. relations which has arisen is not an area which is within its terms of reference on this Bill, it believes that it cannot let the matter pass without directing the attention of the Government to the evidence before the Committee on these points.

Attached as an appendix to this report is a list of parties who submitted briefs, including those who also appeared before your committee in the course of its examination of Bill C-58.

Respectfully submitted,

SALTER A. HAYDEN,
Chairman.

(Appendix)

List of submissions received with regard to Bill C-58, "An Act to amend the Income Tax Act".

SUBMITTED BRIEFS AND APPEARED	Date of Appearance
1. MD Publications (<i>Canada</i>) Limited	May 6, 1976

2. Maclean-Hunter Limited	May 12, 1976
3. Graphic Arts Industries Association	May 12, 1976
4. Canadian Periodical Publishers' Association	May 12, 1976
5. Time Canada	May 13, 1976
6. Saturday Night	May 19, 1976
7. Canadian Association of Broadcasters	May 19, 1976
8. Institute of Canadian Advertising	May 20, 1976
9. WBEN, Inc.; Capital Cities Communications Inc.; and Taft Broadcasting Company	June 9, 1976
10. Channel Seventy Nine Limited, (<i>CITY-TV</i>)	June 9, 1976
11. KVOS-TV (<i>B.C.</i>) Limited, Vancouver	June 9, 1976
12. Advertising Agency Association of British Columbia	June 9, 1976
13. Association of Canadian Advertisers	June 10, 1976
14. Canadian Radio-Television Commission	June 16, 1976
Number of witnesses in support of the above: 47	
SUBMITTED BRIEFS BUT DID NOT APPEAR	
Andy McDermott Sales Ltd.	
Catton Buckham Advertising Agency Ltd.	
CKCO-TV Kitchener	
Hyland Radio-TV Limited	
Stovin-Byles Television Limited	
Okanagan Valley Television Company Limited	
Monarch Broadcasting Co. Ltd. (<i>CHAT Radio-TV, Alberta</i>)	
Tele-Capital Ltd. of Quebec City	
CKSO-TV and Radio of Sudbury	
Council of Forest Industries of B.C.	
British Columbia Television Broadcasting System Ltd.	



Government
Publications

FIRST SESSION—THIRTIETH PARLIAMENT
1974-76

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
**BANKING, TRADE AND
COMMERCE**

The Honourable SALTER A. HAYDEN, *Chairman*
The Honourable ALAN MACNAUGHTON, P.C., *Acting Chairman*

Issue No. 95

WEDNESDAY, JULY 7, 1976
THURSDAY, JULY 8, 1976
WEDNESDAY, JULY 14, 1976

Complete Proceedings on:

The referral *back* of the
Report of the Committee on
Bill C-58, "An Act to amend the Income Tax Act"

REPORT OF THE COMMITTEE

(Witnesses—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Austin	Lafond
Barrow	Laird
Beaubien	Lang
Buckwold	Macnaughton
Connolly	Manning
(<i>Ottawa West</i>)	McIlraith
Cook	Molson
Desruisseaux	*Perrault
*Flynn	Smith
Haig	(<i>Colchester</i>)
Hayden	Sullivan
Hays	Walker—(20)

**Ex officio* members

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, July 7, 1976.

“With leave of the Senate,

The Honourable Senator Perrault, P.C., resumed the debate on the motion of the Honourable Senator Hayden, seconded by the Honourable Senator Bourget, P.C., for the adoption of the Report of the Standing Senate Committee on Banking, Trade and Commerce on the Bill C-58, intituled: “An Act to amend the Income Tax Act”.

After debate,

In amendment, the Honourable Senator Perrault, P.C., moved, seconded by the Honourable Senator McIlraith, P.C., that the Report be not now adopted but that it be referred back to the Standing Senate Committee on Banking, Trade and Commerce for further consideration and report.

After debate, and—

The question being put on the motion in amendment, it was—

Resolved in the affirmative.”

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, July 7, 1976

(133)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 5:00 p.m., *in camera*.

SUBJECT: Re-examination of the report on Bill C-58—
"An Act to amend the Income Tax Act".

Present: The Honourable Senators Hayden (*Chairman*), Austin, Buckwold, Cook, Desruisseaux, Flynn, Haig, Lafond, Laird, Lang, Macnaughton, McIlraith, Perrault, Smith (*Colchester*), Sullivan and Walker. (16)

Present, not of the Committee: The Honourable Senators Asselin, Bell, Benidickson, Bourget, Cottreau, Davey, Forsey, Lamontagne, Langlois, Lawson, Lucier, McDonald, McElman, McGrand, Michaud, Molgat, Petten, Riel, Riley, Rowe, Smith, (*Queens-Shelburne*) and van Roggen. (22)

WITNESSES:

The Honourable Jeanne Sauvé, P.C., Minister of Communications; and

The Honourable J. S. Cullen, P.C., Minister of National Revenue.

The Committee then proceeded to a discussion with Mrs. Sauvé and Mr. Cullen during which certain undertakings were given by the Ministers with respect to meeting certain objections to Bill C-58 as set forth in the original Report of the Committee dated June 22, 1976.

At 6:20 p.m. the Committee adjourned until 9:30 a.m., Thursday, July 8, 1976.

Thursday, July 8, 1976

(134)

At 9:30 a.m. the Committee resumed its re-examination of its report on Bill C-58, *in camera*.

Present: The Honourable Senators Hayden (*Chairman*), Austin, Buckwold, Cook, Desruisseaux, Flynn, Haig, Lafond, Laird, Lang, Macnaughton, McIlraith, Perrault, Smith, (*Colchester*), Sullivan and Walker. (16)

Present, not of the Committee: The Honourable Senators Bell, Benidickson, Davey, Forsey, Lucier, McElman, Petten, Riel, Smith (*Queens-Shelburne*), and van Roggen. (10)

WITNESSES:

The Honourable J. Hugh Faulkner, P.C., Secretary of State.

The Committee then proceeded to a discussion with Mr. Faulkner during which certain objections to Bill C-58 as set forth in the original Report of the Committee dated June 22, 1976 were examined in more detail; following which Mr. Faulkner agreed to meet with Mr. Cullen with a view to meeting some of the objections of the Committee.

At 10:25 a.m. the Committee adjourned until 3:00 p.m. this day.

3:00 p.m.

(135)

At 3:00 p.m. the Committee resumed, *in camera*.

The Honourable Senator Macnaughton, P.C., assumed the Chair as Acting Chairman.

Present: The Honourable Senators Austin, Buckwold, Cook, Desruisseaux, Haig, Hayden, Lafond, Laird, Lang, Macnaughton, McIlraith, Perrault, Smith, (*Colchester*) and Walker. (14)

Present, not of the Committee: The Honourable Senators Bell, Davey, Forsey, McElman, Petten, Riel, Smith (*Queens-Shelburne*) and van Roggen. (8)

The Honourable Senator Perrault then made a statement to the Committee reporting progress with respect to certain consultations with the Ministers concerned regarding certain objections to Bill C-58 as set forth in the original Report of the Committee dated June 22, 1976.

At 3:30 p.m., the Committee adjourned to reconvene at the call of the Chairman.

Wednesday, July 14, 1976

(136)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m., *in camera* to resume its re-examination of Bill C-58.

Present: The Honourable Senators Hayden (*Chairman*), Austin, Beaubien, Flynn, Haig, Lafond, Laird, Lang, Macnaughton, Manning, McIlraith, Molson, Perrault, Smith (*Colchester*) and Walker. (15)

Present, not of the Committee: The Honourable Senators Davey, McElman, Petten and Smith (*Queens-Shelburne*). (4)

The Chairman read to the Committee a letter received from the Secretary of State dated July 13, 1976. The Committee then proceeded to the consideration of a draft report with respect to its re-examination of the original Report of the Committee.

Following the above discussion it was *Agreed* that the Chairman would conclude the draft and the Committee would adjourn until approximately 3:00 p.m. this day.

At 11:15 a.m., the Committee adjourned to the call of the Chairman.

3:30 p.m.
(137)

At 3:30 p.m. the Committee resumed in camera.

Present: The Honourable Senators Hayden (*Chairman*), Austin, Flynn, Lafond, Laird, Macnaughton, Manning, McIlraith, Molson and Walker. (10)

Present, not of the Committee: The Honourable Senators Davey, McElman and Lucier. (3)

The Committee proceeded to reconsider the completed draft report and following certain revisions being made thereto, it was *Resolved*, upon motion of the Honourable Senator Macnaughton, that the said Bill be now reported without amendment.

The Honourable Senators Flynn and Smith (*Colchester*), wished to record their dissent to the adoption of this report.

Following discussion, it was *Agreed* that the transcript of the proceedings of the Committee which were held *in camera* on the referral back to the Committee of its report on Bill C-58, be now printed.

At 4:40 p.m., the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

Report of the Committee

Wednesday, July 14, 1976

The Standing Senate Committee on Banking, Trade and Commerce to which was referred back for further consideration its Report on Bill C-58, "An Act to amend the Income Tax Act", has, in obedience to the order of reference of July 7, 1976, re-examined the said Report and now reports as follows:

Your Committee considers it urgent that the following observations be made as the basis for its report. This reference back to the Committee for further consideration and report was made after some debate during which various and opposing views were expressed in the Senate, from which it appeared such reference back should be made in order that the Committee might reconsider the amendments contained in the said report, it appearing that such amendments in the form contained in the report were not acceptable to the Government and it also appearing that the practice of dealing with the differences as between the report and the position of the Government by undertakings which might well represent concessions by both parties should be tested. The motion to refer back the report of the Committee for further consideration and report was approved.

Following the approval of the reference back of the report of the Committee, meetings have been held by the Committee with the Ministers who will be concerned in the administration of C-58, with the following results:

The first Minister to appear before the Committee was the Minister of Communications, the Honourable Jeanne Sauvé. It should be noted in this connection that on January 23, 1975, the Secretary of State of Canada made a statement to the House of Commons in part in respect of the broadcasting provisions of C-58, in which he referred to the amendments of Section 19 of the Income Tax Act in their application to broadcasting, as follows:

no deduction against income be permitted for advertising time on a non-Canadian broadcasting station for an advertisement directed primarily to a market in Canada. Such an amendment would not, of course, come into effect until sufficient advertising time is available on Canadian stations to satisfy Canadian needs adequately."

One of the amendments contained in the said report dealt with procedure for such determination by Parliament, but such provision appears restrictive in its application if Parliament is not in session. The Minister on this point stated as follows:

1. THE CHAIRMAN: "In lieu of that (going back to the House), it is up to you, as the Minister, to make the determination that the conditions existing in the advertising industry, as Mr. Faulkner mentioned on January 23, 1975, are such that it can be said that the needs of the advertising public are adequately satisfied."

HON. MRS. SAUVÉ: Yes.

THE CHAIRMAN: I take it this is a decision you will make.

HON. MRS. SAUVÉ: Yes."

2. THE CHAIRMAN: "... What we are suggesting, in the event that you do it yourself, is that there be opportunity for the stations affected to appear and present their case, with time limits on their appearance, so that they will not run into September 1."

HON. MRS. SAUVÉ: I think I could meet that requirement. I am sure that I could receive representations from interested parties, who would flag me if there were any problems with regard to the date of proclamation that I intend to set. I think it would be difficult for me to take on a commitment to ask the CRTC, for instance, to do that for me, which would involve, I suppose, having public hearings on the matter. I think that would be quite a lengthy process ..."

3. HON. MRS. SAUVÉ: "... I think, however, that Senators would perhaps be satisfied, if I accepted briefs or representations from interested parties in order to ensure that broadcasting time would be available in Toronto and in Vancouver. I do not think Vancouver will be a problem. Toronto might, in the estimation of some, pose a problem, but I would certainly be willing to receive representations on that."

THE CHAIRMAN: Of course, the proclamation would bring the broadcast sections into force, applying to all the border stations in Canada, so that Toronto becomes, in that regard, just as important as Vancouver, even though Vancouver has a new station coming in.

HON. MRS. SAUVÉ: Yes.

THE CHAIRMAN: So when you make the law applicable to broadcasting you must cover it and rule in connection with all the areas.

HON. MRS. SAUVÉ: Yes.

THE CHAIRMAN: I do not see any objection that could possibly be made to your making that inquiry yourself.

HON. MRS. SAUVÉ: I could do that.

THE CHAIRMAN: And it could be informal. The main thing is that the condition which Mr. Faulkner set out in his speech of January 23, 1975, was that it would not be proclaimed until the needs of the advertising public were adequately served, and that means in any of the communities that are affected.

HON. MRS. SAUVÉ: I certainly stand by the commitment that Mr. Faulkner made about the Bill. I think we will ensure that there is broadcasting time available for those advertisers who need it."

4. SENATOR LANG: "... I was not clear, Madame Minister, whether in your remarks concerning the proclamation date of the broadcasting provisions you were prepared to hold public hearings into the matter."

HON. MRS. SAUVÉ: No; I said that would be too difficult. I said I would be prepared to receive representations and briefs from the interested parties before I decided

on a proclamation date, and that would be in order to ensure the conditions set by Mr. Faulkner whereby there would be some available advertising time on the Canadian broadcasting outlets."

5. SENATOR LANG: "... It is not because of Vancouver that this question arises, but because of the situation in the Toronto area. The Committee also felt that tying the proclamation date solely to the start-up date of the Vancouver station overlooked the Toronto problem which would, of course, be affected by the bill."

6. HON. MRS. SAUVÉ: "I would not disregard it. If it were demonstrated by the different representations that it got that there was no available time on the Canadian stations, then I would have to think about what would be the proper proclamation date. I would certainly not disregard the representations when I received them. You see, there is a difference of opinion as to whether there is some time available ... So far as Vancouver is concerned, you were right. We would deal with that and the question there would be answered when the new station came on stream. We felt that that was sufficient to provide the advertisers with the space they needed. In the Toronto area you have no new station coming on stream, but I think that one of my officials gave you a breakdown of the time that was available, but he felt that the broadcasters would have the service that they need. Here again I cannot accept a public hearing, and I explained a while ago why I thought that was very difficult to do, but I would certainly accept representations. If the representations indicated to me that there is not enough available time on the Canadian stations, I would certainly take that into account in deciding the proclamation date; and, as I said, I would not disregard the representations."

SENATOR LANG: When you use the term "time available", do you take those words as not just meaning minutes or hours but also audience availability?

HON. MRS. SAUVÉ: Prime time, you mean, the best hours to advertise; I would think that would have to be part of the consideration.

SENATOR LANG: But you might have prime time on a station with a low audience rating.

HON. MRS. SAUVÉ: Yes. But if an advertiser wants to go on that station and if that is his usual means of advertising, then that would suit him and he would not be making representations to me that there was not enough time. I think we would have to look into all of these situations in order to ascertain that there is enough time.

SENATOR LANG: I should point out that I am no expert in these areas.

HON. MRS. SAUVÉ: Neither am I, but I can give you the commitment that it will be looked into very carefully. I understand that if someone is used to advertising on a station with a heavy audience rating, he does not want to be rerouted to some small town station where he gets no coverage."

7. The Minister of Communications in her statements to the Committee quoted above has dealt with the problems of implementing the statement of the Secretary of State of Canada made in the House of Commons on January 23, 1975, in which the conditions required to be met before any determination of the date to be fixed by proclamation is

settled for the coming into force of the Broadcast Section of C-58. Her agreement and statement on this point are:

a) that she will implement the conditions laid down by the secretary of State of Canada for the necessary determination that "sufficient advertising time is available on Canadian stations to satisfy Canadian needs adequately", and

b) to that end she will receive representations and briefs from the interested parties before any such determination is made by her.

This statement of the Minister deals with the problem that the Committee wished to have resolved before any proclamation was made, providing for the coming into force of the Broadcasting Sections of C-58.

Accordingly, the Committee is prepared to accept this statement of the Minister, and therefore does not now insist on the amendment proposed in the report on that point.

INTERNATIONAL RELATIONS

8. As to the suggestion by the Minister of Communications on the matter of international relations that a committee or a body of people be set up with responsibility for negotiating with representatives from the United States, she had referred only to the subject of commercial deletion. It was suggested that such committee should cover the whole range of broadcasting. This, she stated, would be difficult as a committee is already set up to discuss the matter of commercial deletion and this is quite different from the matters we are dealing with in C-58. However, she showed that she was well aware of the general problem and that it was more embracing than commercial deletion.

Her statements on this point are as follows:

THE CHAIRMAN: "... the statement you have made; that is, that in the interests of resolving a possible conflict in the field of broadcasting, you would assist in establishing a committee or a body of people who would have the responsibility for negotiating with representatives from the United States. The only thing that bothered me about that was that your paragraph limits this to commercial deletion. I think, and this is the view of the members of the committee, that it should cover the whole range of broadcasting."

HON. MRS. SAUVÉ: I think that would be difficult ... I don't think that the two questions should be lumped together. I don't think they belong together, and I am afraid that despite the fact that the senators are preoccupied by international relations, as I am too, I think the best thing to do, if you want those international relations to be preserved in these particular talks, is to make these two questions separate. Commercial deletion should be discussed with the representatives of the regulatory body in the United States and ours, and people from the External Affairs Department, the State Department and the relevant technical people. I think it is much more conducive to better relations between our two countries to have these two questions separate. It seems to me that it would be very difficult otherwise, because Bill C-58 is not at the present time being discussed in that forum or in that committee, and Mr. Vine himself, when he was appearing before the Senate Committee giving the report on Canadian matters, did say that on the occasion of these

meetings between the FCC and CRTC and other people there was a reference made to Bill C-58, but it was pointed out by the Canadians that this was an internal matter having to do with the Department of National Revenue and fiscal policy and therefore that it should not be discussed at the same time as commercial deletion. He indicated to the Senate Committee that he agreed with this position, and that he had noted it and agreed that these two questions should not be discussed together. I think it would be much more conducive to clearing these matters that we have between us if they could be discussed in separate forums."

This subject of relations with the United States and the effect on international relations of the provisions of C-58 was of great concern to many senators who spoke on C-58 on second reading and in Committee and on debate on the Committee report. Much evidence was heard by the Committee on this subject and the state of discussions and negotiations by Canada with the United States. In its report the Committee recognized the extreme importance of this issue and referred to the strain on Canada-U.S. relations which it regarded as so important to Canada. This importance was emphasized by the evidence of Mr. Boyle of the CRTC, who stated that most serious and complicated problems in this field were in the immediate offing. Accordingly, the Committee is very appreciative of the Minister's understanding of the situation and her concern and interest in devoting time and effort to discussions and negotiations in this area and the setting up of a Committee to this end.

RE: "SUBSTANTIALLY THE SAME"

The Committee in its efforts to achieve some common ground whereby the differences between the Committee report and the views and policy of the Government also heard the Honourable Mr. Cullen, the Minister of National Revenue. The report of the Committee was opposed to the exercise of ministerial discretion in the interpretation of the words "substantially the same" as they occur in Section 19, Subsection 5, of the Income Tax Act, on the basis that fixing a percentage of content difference between a periodical published in Canada as against one published outside Canada was a legislative act and not to be determined by ministerial discretion.

The Committee in its report decided that a provision by way of amendment to C-58 should be recommended whereby the interpretation of the words "substantially the same" must be referred to the Federal Court for interpretation even before assessment, after which time the taxpayer had a statutory right of appeal.

The Minister, when recently before the Committee stated:

HON. MR. CULLEN: "I would prefer it in legislation; I am prepared to introduce legislation under a notice of Ways and Means Motion to define "not substantially the same".

THE CHAIRMAN: Without reference to the 80 per cent?

HON. MR. CULLEN: In the concession I am making now, most assuredly I would define "not substantially the same" in the way Government policy has in effect defined it, the way my Department has interpreted it, the backing I had of my colleagues. What we mean by

"not substantially the same" is 80 per cent different; otherwise we might as well tear up the bill."

HON. MR. CULLEN: "I mentioned putting it into legislation primarily because I think from sober second thought suggestions here that if we put it into regulations it is very easy for a Cabinet, by Order in Council, to change the 80 to 90, or change it to 100."

HON. MR. CULLEN: "I am giving that undertaking to introduce a Bill to define "substantially the same".

SENATOR AUSTIN: In the next session?

HON. MR. CULLEN: Yes."

With this undertaking by the Minister to introduce legislation at the next session of Parliament to define "substantially the same" including therein the 80 per cent content difference, Parliament, both the Commons and the Senate, will have the opportunity to challenge the definition and the 80 per cent content difference requirement included therein. On the other hand, the Committee provided for an appeal to the Courts as of right under C-58 on this point of interpretation by the Minister for a publisher who is defined as a person who has or proposes to have the exclusive right to produce and publish issues of a newspaper or periodical for such purposes.

The undertaking to define by statute removes the exercise of ministerial discretion and affords Parliament the opportunity to challenge the 80 per cent content difference even as the Committee amendment was intended to do. Under the Committee amendment, the Court would be able only to deal with a particular case as to the meaning of "substantially the same." A statutory definition would be of general application but unless concurred in by the Senate would have no force or effect.

The purposes of both amendments would appear to have the same objective, that is to get away from the exercise of ministerial discretion, which is a most desirable purpose.

The Committee is prepared to recommend the acceptance of the undertaking of the Minister of National Revenue to introduce a Bill in the Commons at the next session of Parliament to define the meaning of "not substantially the same". The Committee will not insist on its amendment contained in its first report but is not to be taken by such action to have approved of the provisions of the proposed amendment where it refers to the 80 per cent content difference.

These three undertakings hereinafter described represent the major points of the Committee's original report. The purpose of several of these amendments was to restore the rule of law and the supremacy of Parliament. These undertakings, when implemented, will also accomplish this same purpose. The members of the Committee are not vain and wedded to their way as the only way of achieving this desired result and the Committee is prepared to accept such undertakings in lieu of its amendments.

The Committee in its report did not erode the essential purposes of C-58. Indeed, the Committee supported and approved its stated objectives. The Committee is now prepared not to insist on its amendments on the several points covered by the undertakings outlined above but is not to be taken to approve the 80 per cent content difference, and is happy that this result was able to be achieved. The two Ministers the Honourable Jeanne Sauvé and the Honourable Bud Cullen in this regard were understanding and

co-operated in the effort to resolve the differences in viewpoint as between the report of the Committee and the Government and this was much appreciated by the Committee.

The report of the Committee contained two further amendments. One such amendment dealt with the position of the magazine MD of Canada and similar publications and struck out the repeal of the exemption provided for magazines, the principal function of which is the encouragement, promotion or development of the fine arts, letters, scholarship or religion, under Section 19(4) of the Income Tax Act and reinstated the exemption provided for such magazine.

The second amendment provided for a change in the date for the coming into force of the provisions of C-58 in relation to magazines, periodicals and newspapers by striking out the date of January 1, 1976, and substituting therefor the date January 1, 1977, and also changing the date December 31, 1975, as the date of an issue of a non-Canadian newspaper or periodical to December 31, 1976, after which advertising costs in such publications were non-deductible for tax purposes. The purpose of such changes in C-58 was to remove all exemptions provided under the original Section 19(4) of the Income Tax Act.

The witnesses who appeared before our Committee and, in particular, the Honourable Mr. Cullen, who appeared on Wednesday afternoon, July 7, stated that C-58 was not intended to have any retroactive effect. The retroactivity occurred by reason of the prolonged debate as the Bill moved through Parliament, even at this date such Bill has not passed into law. However, under the above mentioned amendment proposed in C-58, once the Bill became law its provisions would apply to Canadian advertisers in issues of non-Canadian newspapers or periodicals and such advertising costs would be non-deductible for tax purposes as and from January 1, 1976. There was no design that such should be the effect of C-58, but the advertisers who continue to advertise in newspapers and periodicals enjoying an exemption under the then law would find themselves, after C-58 became the law, subject to C-58 and their advertising costs since January 1, 1976, would be non-deductible. For those who can show that hardship has been suffered by reason of this unintended retroactive effect of C-58, the provisions of Section 17 of the Financial Administration Act are available for the purpose of applying for remission of such taxes as may be attracted in the period from January 1, 1976, until C-58 becomes law. This right to apply for remission does not require any undertaking in order to be asserted but hardship must be demonstrated to the extent necessary to satisfy the Minister of National Revenue in order that he may recommend such remission to the Treasury Board.

In attempting to determine what advertisers have been adversely affected by this retroactive feature produced by the lengthy duration of the consideration by Parliament of C-58, it would appear to be essential that such advertisers as are seeking remission would have to incur a loss by reason of the retroactive non-deductibility of advertising costs before the calculation of taxes. It becomes important, then, to know the extent of the inducements offered to such advertisers in the way of lower advertising rates to compensate for the possible non-deductibility of such advertising costs in arriving at net income.

It would appear that a very limited number of advertisers would fit into this position by reason of the concessions made to them by the owners of non-Canadian newspapers and periodicals in 1976. Accordingly, for purposes of this report, it becomes necessary to arrive at some conclusion as to the extent of the problem and its importance. The report of the Committee and the amendments proposed in such reports to the Senate was intended to relieve against this situation, except that in the case of exemptions provided under Section 19(4) the amendment proposed by the Committee restored the exemption thereby provided without time limitations.

Your Committee has had to weigh such considerations against the substantial advantages provided by the undertakings hereinbefore referred to by the Minister of Communications and the Minister of National Revenue. The view of the Committee is that such benefits as afforded are substantial and are in the public interest, and assist in affirming the rule of law and the supremacy of Parliament in the administration of C-58. The advantages in these circumstances of the undertakings which have been made by the respective Ministers on behalf of the Government would appear to outweigh in great measure the additional financial burden, if any, imposed on advertisers in non-Canadian newspapers and periodicals as from January 1, 1976.

So far as termination of the special exemptions are concerned heretofore enjoyed by non-Canadian newspapers and periodicals, it is a matter of Government policy to remove such special exemptions and the Committee has concluded that its insistence on the retention of the exemption under Section 19(4) might adversely affect the undertakings referred to above, which are so important in the public interest and in the administration of C-58. Such insistence by the Committee in this report may well lead to the non-acceptance of the report and the implementation of C-58 without amendment and therefor without the substantial benefit afforded by the undertakings put forward by the Minister of Communications and the Minister of National Revenue. In these circumstances, the Committee is prepared to withdraw these two proposed amendments contained in its original report.

It should be noted that the Secretary of State of Canada, to whom the suggested compromises on these two points were made when he appeared before the Committee on July 8 and in respect of which he stated that he must confer on these points with his colleague, the Minister of National Revenue, did not return to the Committee to indicate what, if any, decision had been arrived at. It is possible that he may have discussed the matter with the Government Leader in the Senate. However, the Secretary of State of Canada has written a letter to the Chairman of the Committee, copy of which is appended hereto, in which he offers certain concessions, as follows:

"In this regard, because of the great interest of you and your Committee in the objective of the Bill, I would be pleased to meet with the Committee next session to provide a status report on the effect of the legislation on meeting our objectives in the periodicals and broadcasting industries."

"Certainly, arising out of application of the Act, should evidence be placed before me that would warrant consideration of remission of taxes under the

Financial Administration Act on behalf of advertiser/ Tax payers in these publications, that information will be transmitted to my colleague, the Minister of National Revenue. I am sure, however, you understand that within the terms of my Ministerial responsibility, I could not go beyond this commitment."

This letter has been read to the Committee and while it may indicate a sympathetic approach and appreciation of the work of the Committee, it does not propose anything that would relieve the condition of those advertisers or publishers who are adversely affected by C-58; more particularly on the two points developed earlier, namely retroactivity and the magazine *MD of Canada*.

The Committee is still of the opinion that the unplanned retroactive effect of the provisions of C-58, so far as they deal with non-deductibility of advertising costs by advertisers in non-Canadian newspapers and periodicals, should be relieved on the basis of unexpected hardship. There can be no assurance that this will occur under Section 17 of the Financial Administration Act. The Committee is still of the view that non-Canadian newspapers and periodicals in the category covered by the exemption provided under Section 19(4) should be afforded some period for efforts at compliance or for winding up their affairs and ceasing to carry on in Canada. However, while your Committee is genuinely concerned about this situation and the apparent refusal of the Secretary of State to make any concession by way of compromise on these costs, the Committee is not prepared to insist on its proposed amendments on these two points contained in its original report as the benefits of the undertakings put forward by the several Ministers substantially outweigh the results that may well occur in the withdrawal of these undertakings if amendments to the Bill are persisted in.

For the reasons above stated, satisfied as the Committee is that the principles which influenced its consideration of Bill C-58 and were reflected in the original report of the Committee are met by Government undertaking, and with genuine concern for those who will still be adversely affected by C-58, the Committee now reports the Bill without amendment.

Respectfully submitted,

SALTER A. HAYDEN,
Chairman.

APPENDIX

The Secretary of State of Canada

July 13, 1976

Personal
The Honourable S. A. Hayden
The Senate
House of Commons
Ottawa, Ontario
Dear Senator Hayden:

First of all, I want to thank you, as Chairman, and the other members of the Senate Banking, Trade and Commerce Committee for your diligent examination of Bill-58.

I want to assure you that I have studied carefully the contents and recommendations contained in the report. It is gratifying to note that the Committee supports the objectives of the Bill. I share with you a hope that the legislation will achieve its objectives and the result will be further development and growth of healthy, indigenous Canadian broadcasting and publishing industries.

In this regard, because of the great interest of you and your Committee in the objectives of the Bill, I would be pleased to meet with the Committee next session to provide a status report on the effect of the legislation on meeting our objectives in the periodicals and broadcasting industries.

As well, I would welcome from you and the Committee, and from other members of the Senate, suggestions which from time to time you may wish to make with respect to Canada's cultural industries for which I have some responsibility.

With respect to the proposed legislation, I know we share a desire to make it the means by which the goals we hold in common may be achieved.

It has been my determination from the outset to produce a measure which will be fair and even-handed in its application. In this regard, I am well aware that the status of certain periodicals under the present section 19, subsection 4 of the Income Tax Act has been of concern to certain members of the Committee.

Certainly, arising out of application of the Act, should evidence be placed before me that would warrant consideration of remission of taxes under the Financial Administration Act on behalf of advertiser tax payers in these publications, that information will be transmitted to my colleague, the Minister of National Revenue. I am sure, however you understand that within the terms of my Ministerial responsibility, I could not go beyond this commitment.

The recourse is open to any tax payer to place before the Minister of National Revenue evidence that would warrant consideration of a remission of taxes under the Financial Administration Act. As you know, under Section 17 of the Act, aggrieved tax payers may seek such remission from the Minister of National Revenue. Although the interpretation of the Act by the Treasury Board has been quite narrow, the recourse still remains available.

I have enjoyed meeting with your Committee and, despite certain differences of opinion which have occurred from time to time—a feature of Parliamentary democracy I want you to know how useful the Committee's work has been to me and my colleagues.

Yours very truly,
J. Hugh Faulkner

The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, July 7, 1976

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-58, to amend the Income Tax Act, met this day, *in camera*, at 5 p.m. to give consideration to the bill.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, we have two witnesses this afternoon, the Honourable Madame Sauvé, Minister of Communications, and the Honourable Mr. Cullen, Minister of National Revenue. This is a different kind of meeting, I want you to know. The intention of the meeting is to see if there is any common ground as between what the report says and what you are prepared to accept. We are not extracting information, or doing any of those things that one does in an inquiry. We are trying to achieve a result.

Madame Sauvé, we had you as a witness before, and we have all read and understand your testimony. Senator Perrault, the Government Leader in the Senate, has furnished me with a copy of the letter which you wrote to him replying to his letter, in which he developed certain points. We have taken the liberty of enlarging on the content of that letter so as to cover the situations which we think should be covered, if you are agreeable. I know you have not had much opportunity to read this, and therefore you may want to take it away with you to read it. In the meantime, however, we would like to ask you a few questions.

I understand that the intention is to proclaim the broadcasting section of C-58 on or about September 1. That depends on the date on which the new station in Vancouver goes on the air. Is that right?

The Honourable Jeanne Sauvé, Minister of Communications: Yes, Mr. Chairman.

The Chairman: So the amendment which was proposed by the committee in its report would not be of any help to you at all in carrying out that proposal.

Hon. Mrs. Sauvé: I really cannot answer that, because I do not have the report before me. We have just been convened, five minutes ago. I do not have any of my documents with me. I read the report when it came out on June 23, but there have been several weekends in between so that it is not fresh in my mind. I will try to answer your questions, though, as best I can.

I think I can respond to that letter now, but I do not know what you are referring to. If you can let me see the text, I can answer you.

The Chairman: This is a copy of the letter you wrote to Senator Perrault.

Hon. Mrs. Sauvé: Yes.

The Chairman: And what you have there . . .

Hon. Mrs. Sauvé: —is another letter.

The Chairman: A suggested replacement.

Hon. Mrs. Sauvé: Yes. And you referred to the report, also.

The Chairman: I referred to the report and to the provisions here, which require, as a preliminary to a proclamation of the bill, that there must be a motion in the House of Commons approving the date of the proclamation, and which must be concurred in by the Senate.

If your deadline is September 1, I certainly would hope on behalf of one member of Parliament that he would not have to be here sitting in Ottawa on September 1. I would assume that Parliament would not be sitting at that time.

Hon. Mrs. Sauvé: That is right.

The Chairman: Therefore, the amendment in the form in which it was proposed does not meet the situation that may well exist.

Hon. Mrs. Sauvé: I think it would be very difficult to go back to the house with anything. First of all, there is the practical matter of sitting during the summer.

The Chairman: In lieu of that, it is up to you, as the minister, to make the determination that the conditions existing in the advertising industry, as Mr. Faulkner mentioned on January 23, 1975, are such that it can be said that the needs of the advertising public are adequately satisfied.

Hon. Mrs. Sauvé: Yes.

The Chairman: I take it this is a decision you will make.

Hon. Mrs. Sauvé: Yes.

The Chairman: And what this draft letter which you have before you suggests is that you make this determination. You can do it either yourself, or you can engage any staff to do it, or you can, for instance, appoint the CRTC as an agency to do it for you.

What we are suggesting, in the event that you do it yourself, is that there be opportunity for the station affected to appear and present their case, with time limits on their appearance, so that they will not run into September 1.

Hon. Mrs. Sauvé: I think I could meet that requirement. I am sure that I could receive representations from interested parties, who would flag me if there were any problems with regard to the date of proclamation that I intend to set. I think it would be difficult for me to take on a commitment to ask the CRTC, for instance, to do that for me, which would involve, I suppose, having public hear-

ings on the matter. I think that would be quite a lengthy process. There is also there the practical matter that the CRTC has really folded up, as far as public hearings are concerned, for the summer. After that, it has on its agenda a number of hearings that I know of for the fall which will take it to quite some time into the early winter. I know they have a very big agenda.

I think, however, that senators would perhaps be satisfied, if I accepted briefs or representations from interested parties in order to ensure that broadcasting time would be available in Toronto and in Vancouver. I do not think Vancouver will be a problem. Toronto might, in the estimation of some, pose a problem, but I would certainly be willing to receive representations on that.

The Chairman: Of course, the proclamation would bring the broadcast sections into force, applying to all the border stations in Canada, so that Toronto becomes, in that regard, just as important as Vancouver, even though Vancouver has a new station coming in.

Hon. Mrs. Sauvé: Yes.

The Chairman: So when you make the law applicable to broadcasting you must cover it and rule in connection with all the areas.

Hon. Mrs. Sauvé: Yes.

The Chairman: I do not see any objection that could possibly be made to your making that inquiry yourself.

Hon. Mrs. Sauvé: I could do that.

The Chairman: And it could be informal. The main thing is that the condition which Mr. Faulkner set out in his speech of January 23, 1975, was that it would not be proclaimed until the needs of the advertising public were adequately served, and that means in any of the communities that are affected.

Hon. Mrs. Sauvé: I certainly stand by the commitment that Mr. Faulkner made about the bill. I think we will ensure that there is broadcasting time available for those advertisers who need it.

The Chairman: The other thing that I was pleased to note in your letter to Senator Perrault was your reference, in about the concluding paragraph, I think, to international relations. I think it is an excellent suggestion, and I believe the committee, although I would have to put it to them, would accept, in substance, the statement you have made; that is, that in the interests of resolving a possible conflict in the field of broadcasting, you would assist in establishing a committee or a body of people who would have the responsibility for negotiating with representatives from the United States.

The only thing that bothered me about that was that your paragraph limits this to commercial deletion. I think, and this is the view of the members of the committee, that it should cover the whole range of broadcasting.

Hon. Mrs. Sauvé: I think that would be difficult. The committee that is already set up to discuss the matter of commercial deletion is made up of experts from the FCC. I do not know who else is on the committee. I do not know if there are representatives from the State Department. I think we have representatives from External Affairs. I

think some of our people are on it as technical experts, and they are discussing the matter of commercial deletion, which is quite different from the matters which we are dealing with in Bill C-58. I don't think that the two questions should be lumped together. I don't think they belong together, and I am afraid that despite the fact that the senators are preoccupied by international relations, as I am too, I think the best thing to do, if you want those international relations to be preserved in these particular talks, is to make these two questions separate. Commercial deletion should be discussed with the representatives of the regulatory body in the United States and ours, and people from the External Affairs Department, the State Department and the relevant technical people. I think it is much more conducive to better relations between our two countries to have these two questions separate. It seems to me that it would be very difficult otherwise, because Bill C-58 is not at the present time being discussed in that forum or in that committee, and Mr. Vine himself, when he was appearing before the Senate committee giving the report on Canadian matters, did say that on the occasion of these meetings between the FCC and CRTC and other people there was a reference made to Bill C-58, but it was pointed out by the Canadians that this was an internal matter having to do with the Department of National Revenue and fiscal policy and therefore that it should not be discussed at the same time as commercial deletion. He indicated to the Senate committee that he agreed with this position, and that he had noted it and agreed that these two questions should not be discussed together. I think it would be much more conducive to clearing these matters that we have between us if they could be discussed in separate forums.

Senator Macnaughton: Mr. Chairman, if I may interrupt, I think it was at my suggestion that some of this material was put into our report and the purpose was to make sure that it was brought to the active attention of the minister. She has now, to my satisfaction at any rate, indicated this afternoon that she is not only well aware of the problem but she is also worrying about it, and that was the purpose. In other organizations, for example, the Canada-U.S. Interparliamentary Group, we are faced with this situation every time we go down there and the question always is, "Why don't you do something instead of always giving us just soothsaying words?" And it is quite evident, Madame Minister, that you understand the situation perhaps as well as, if not better than, we do.

Hon. Mrs. Sauvé: I think you are right. I am preoccupied with it. I do not have a recent report on them, but these talks are going as well as possible. I don't know whether it would be possible to find a solution which is mutually satisfactory. We have our solution, but it does not seem to please the Americans too much. However, I think they are coming to understand that they are negotiating for border stations, while those who should be the complainants are the producers. The thing is being discussed at all sorts of levels.

Senator Macnaughton: Well, you just take it over with your charm and tact and persuade them.

Hon. Mrs. Sauvé: I am not there. I am afraid they will have to do without it.

Senator Lang: I have two points, Mr. Chairman. I was not clear, Madame Minister, whether in your remarks

concerning the proclamation date of the broadcasting provisions you were prepared to hold public hearings into the matter.

Hon. Mrs. Sauvé: No; I said that would be too difficult. I said I would be prepared to receive representations and briefs from the interested parties before I decided on a proclamation date, and that would be in order to ensure the conditions set by Mr. Faulkner whereby there should be some available advertising time on the Canadian broadcasting outlets.

Senator Lang: You may recall that during our hearings there was no unanimity of opinion as to the availability of adequate advertising time on Toronto stations. There may be lots of time slots open between 12 midnight and 1 o'clock in the morning, but the prime time areas are very heavily booked, and because of that and how it might be affected by the bill and following from a lack of availability of time on the Buffalo stations we felt that this matter should be investigated. It is not because of Vancouver that this question arises, but because of the situation in the Toronto area. The committee also felt that tying the proclamation date solely to the start-up date of the Vancouver station overlooked the Toronto problem which would, of course, be affected by the bill. That is why, in the draft and in the substitute letter you have before you, the suggestion is put forward that by some means or other—and through whatever means you choose to take—a public hearing be held at which the advertisers, primarily the Canadian advertisers, could present their position vis-à-vis the Canadian advertising media, and that a public report be issued thereafter. Now, of course, you could in your discretion disregard that report if you so wished.

Hon. Mrs. Sauvé: I would not disregard it. If it were demonstrated by the different representations that I got that there was no available time on the Canadian stations, then I would have to think about what would be the proper proclamation date. I would certainly not disregard the representations when I received them. You see, there is a difference of opinion as to whether there is some time available. I guess there is, because I remember the last appearance before you when one of my officials gave you a breakdown of what was expected as available time on Canadian broadcasting stations, specifically in the region of Toronto.

So far as Vancouver is concerned, you were right. We would deal with that and the question there would be answered when the new station came on stream. We felt that that was sufficient to provide the advertisers with the space they needed. In the Toronto area you have no new station coming on stream, but I think that one of my officials gave you a breakdown of the time that was available, and he felt that the broadcasters would have the service that they need. Here again, I cannot accept a public hearing, and I explained a while ago why I thought that was very difficult to do, but I would certainly accept representations. If the representations indicated to me that there is not enough available time on the Canadian stations, I would certainly take that into account in deciding the proclamation date; and, as I said, I would not disregard the representations.

Senator Lang: When you use the term "time available", do you take those words as not just meaning minutes or hours but also audience availability?

Hon. Mrs. Sauvé: Prime time, you mean, the best hours to advertise; I would think that would have to be part of the consideration.

Senator Lang: But you might have prime time on a station with a low audience rating.

Hon. Mrs. Sauvé: Yes. But if an advertiser wants to go on that station and if that is his usual means of advertising, then that would suit him and he would not be making representations to me that there was not enough time. I think we would have to look into all of these situations in order to ascertain that there is enough time.

Senator Lang: I should point out that I am no expert in these areas.

Hon. Mrs. Sauvé: Neither am I, but I can give you the commitment that it will be looked into very carefully. I understand that if someone used to advertising on a station with a heavy audience rating, he does not want to be re-routed to some small town station where he gets no coverage.

The Chairman: But don't you think, from an economic point of view, that an advertiser will not take time on a Toronto station that does not have the required amount of audience?

Hon. Mrs. Sauvé: It depends on what he wants to sell.

The Chairman: Well, if he has a speciality product and he can select the customers and group them into one area, and if he can get the exposure to them, then that is enough; but that would be a difficult thing to do.

Hon. Mrs. Sauvé: Some advertisers have a theory that they would rather go to their audiences selectively, and that is their choice.

The Chairman: Yes, but the difficulty there is how they could be hand-picked and planted at the hour at which this advertising will take place.

Hon. Mrs. Sauvé: I cannot answer that.

The Chairman: But the advertiser cannot do that.

Senator Davey: Mr. Chairman, would the minister's study include, in addition to Canadian advertisers, presumably all the Canadian stations involved in a market such as Toronto? Would this study also include local radio, both AM and FM?

Hon. Mrs. Sauvé: Yes, it could include that also, and I would even say it could cover the newspapers, because the radio and television media are not the only ways to reach the public. I would say that if broadcasters were to have more money to spend on advertising they have some alternatives. Supposing that there is no more time on television and radio, the Canadian newspapers are still a good medium in which to advertise. I would not despair for the advertisers that they will not be able to advertise their products. I believe they will find a way. However, I agree that we will look into those who wish to advertise on television and radio and see that they have that time available.

Senator Walker: Madame Minister, would it be unreasonable to suggest, to bring the matter to a head, that January 1, 1977 would be a date before which you would not proclaim?

Hon. Mrs. Sauvé: I would not make that commitment. I said that September could be a date which could be considered. If you break it in the middle of the year, then it is a whole year and a half that is gone, because these contracts are made a long time in advance. I would have to consider what it would mean if I were to say January, 1977. Most of the contracts are made in May for the whole year, and if it were broken to January I do not know exactly what that would mean. So I would not like to make that commitment at this point.

Senator Walker: No; I said that the bill not be proclaimed before January.

Hon. Mrs. Sauvé: No, but as you can see, I am putting it off to 1978 if I say that.

Senator Walker: What would you yourself suggest would be a reasonable time?

Hon. Mrs. Sauvé: I would say September 1 and the date of proclamation would be as soon as the bill is passed. However, I would be prepared to consider September, because senators have made representations and would like me to examine the effect of the date of proclamation I decide upon. I am prepared to do that, and from the time the bill is passed until September 1 I would have time in which to do it.

Senator McIlraith: Mr. Chairman, the minister has made her case adequately for using the proclamation method and has given what in the circumstances can be the only reasonable undertaking she could give to meet the facts as they exist at the moment. For my part, I am quite satisfied with what she has said here.

The Chairman: Yes, I understand the minister to have said that she would implement the conditions, as Mr. Faulkner stated to the House of Commons on January 23, 1975.

Senator McIlraith: Yes, that is surely adequate.

Senator Cook: It is, in my view. After all, if the inquiry discloses that there is not adequate time, the minister would not proclaim it, and if the inquiry disclosed that there would be adequate time, it would be proclaimed, which in my opinion is a fair situation.

Senator van Roggen: Mr. Chairman, leaving the question of the date of proclamation for a moment and the question of available time and returning to the question of negotiations with the United States, I quite agree with the minister that the United States is not particularly concerned with the actual application of this legislation. This is an internal Canadian matter to do with our taxation and would not be a suitable subject for those negotiations, although its effect might well weigh in the scale. The point I would like to make, however, is that there are other problems facing the broadcasters, both presently and, obviously, on the horizon, which go well beyond situations other than this bill. I would appreciate it if the minister could undertake to, either through the present team of negotiators or a different team of negotiators, in the future, negotiate with the Americans on the whole problem of border broadcasting between our two countries in its broadest context, not only in cablevision, but we are coming heavily into pay TV and satellite broadcasting will be coming along. While I do not believe it to be an area warranting anything as structured as the IJC to operate it, it could well be that some type of standing group would be

warranted between the United States and Canada, where we have a unique boundary line in the area of communications, not only because of the proximity of our two nations but also because of the common language, which exists almost nowhere else in the world. So as not to encounter such difficulties as we have experienced in recent months or years in this area, it would be more than worth while to have a broad form of negotiation with the United States on all these problems.

Hon. Mrs. Sauvé: Senator, I think I can satisfy your request by saying that if the Americans did bring up other matters for discussion in the course of these meetings which are taking place between the FCC and the CRTC, we would be more than willing to discuss them with them. Apart from that, we have all sorts of structures, informal and formal, between the Americans and ourselves whereby we discuss general matters and even more specific ones. So, in the area of general consultation I can assure you that because of this common border and because of the spillover of our broadcasting systems, we certainly need to be constantly consulting, which we are doing.

May I, because I just now have the statement of Mr. Vine before the Senate committee, quote it for the record? I believe it would be interesting for the senators. Mr. Vine says:

Despite these signs of progress, on the other side of the ledger bilateral problems remain which have not lent themselves to easy solution.

One such is Bill C-58, which is still under discussion in the Canadian parliament and which will withdraw tax deductions from Canadian advertisers in foreign—i.e. U.S. publications published in Canada—in particular, *Time* magazine and *Reader's Digest*—as well as for advertisers on commercial U.S. radio and television stations. This is a sensitive issue in Canada since it goes to the question of heavy U.S. cultural influence. Since the matter essentially involves the non-discriminatory application of Internal Revenue laws, we have no grounds for objection.

In my opinion that is quite clear.

Senator van Roggen: Thank you, Madame Minister.

Mr. Chairman, in conclusion I would like to stress the point that the regulatory authorities on both sides of the boundary are not always the best instruments to use for negotiating all the problems.

Hon. Mrs. Sauvé: Apart from the regulatory bodies meeting, forming subcommittees, the Department of Communications itself has structured and unstructured meetings with American counterparts in order to discuss problems of common interest.

Senator Lawson: I would like to ask the minister if she was considering a different proclamation date for, say, Toronto and Vancouver. I should preface that question by telling you . . .

Hon. Mrs. Sauvé: How do you administer that?

Senator Lawson: We are talking about available time and coming on air. I made a tour last week of the new Vancouver television station with Mr. Bellman and Mr. Duke, and they are progressing very rapidly. The tentative date, without revealing any secrets, is expected to be the Labour Day weekend. That is when they will quietly be

coming on air. Surely this is not a question of available time, because all the prime time available, or a considerable amount, is being booked right now on that new station. There is also time available on the other stations. Surely it would be in the best interests of Canadian broadcasters, and certainly in view of the coming on air of a new Canadian television station in the Vancouver area, that there should be the earliest possible proclamation date. I am arguing for September 1 or earlier to accommodate that situation and not a delay until January 1.

Hon. Mrs. Sauvé: I do not think I could accept two proclamation dates . . .

Senator Lawson: I am wondering whether you are considering that.

Hon. Mrs. Sauvé: No, I have not considered it.

Senator Lawson: It is not a question of availability in the Toronto area because of the particular situation where it is well established. Surely you would not delay proclamation that would cause considerable financial injury to the Vancouver situation?

Hon. Mrs. Sauvé: But a tax law which applies one way and to one part of the country and does not apply to another part of the country is impossible to have.

Senator Lawson: Then the earliest possible date would be the best.

Hon. Mrs. Sauvé: I think, from the broadcasters' point of view, certainly. I am not trying to delay it. Honourable senators are asking me to delay it. I am trying to accommodate you, because some of you have brought forward some legitimate problems. Certainly, I agree with you that the earliest date is the best one from the broadcasters' point of view.

Senator Lawson: Perhaps we could reach a compromise: immediately it is passed!

Hon. Mrs. Sauvé: That is what I intended to do, but I have given you the first of September.

Senator Buckwold: I am not sure whether your department or the CRTC has any control over rates being charged by television stations to advertisers. In the evidence we had a good deal of concern expressed about rates in Canada going up, to the detriment of the smaller stations. The advertisers would then be putting their budgets in the larger marketable areas, those prime time periods in the stations which have highest coverage or ratings. They would charge that much more. Is there any way you can monitor this type of thing so that we do not find that kind of development?

Hon. Mrs. Sauvé: We have no control over this. I am speaking from experience which goes far back. I think these rates are set to a very complicated scale by the ACC triple A, or something—and goodness knows what that stands for. I think it is Association of Advertisers. They decide on the rates according to the audience, according to the coverage. I am not sure that it is discriminatory toward the smaller stations because, obviously, the rates are lower in smaller stations because it is related to the audience.

The Chairman: It looks like a good field to stay out of.

Are there any other questions at this time?

Senator Lang: I would like to direct the minister's attention back to the draft letter. You state that a public hearing into the matter would not be feasible. Could you give me your reasons?

Hon. Mrs. Sauvé: I suppose you were not here when I gave that at the beginning. If we had a public hearing, it would set the proclamation date back quite far, because organizing public hearings is a very—

The Chairman: Not necessarily, Madam Sauvé. You could put any time limit that you wished on when you would hear people. We have done that. We have asked, "How much time do you want? You tell us the amount of time, and we will see that you get it."

Hon. Mrs. Sauvé: Well, I would want to give this to the CRTC to do. I have not thought this out. That would be the proper agency to do it for me. As I said, I think they have packed up for the summer, so far as public hearings are concerned. I know that their agenda in the fall is an onerous one, which will take them into the early part of the winter. It would mean that the proclamation date would be very far into the new year, and I think that defeats the purpose of the bill.

Furthermore, have they not had a public hearing? They have appeared in front of parliamentary committees, including a Senate committee. They have had innumerable opportunities to have their views made known. They have not been in any way quashed or silenced or set aside. I feel it is a bit unreasonable to ask for a thing as complicated as a public hearing at this point when they have been heard by everybody.

The Chairman: There is something terrifying about saying "public hearing." Perhaps if we called it a "hearing"—

Hon. Mrs. Sauvé: That is all right by me. I thought that the offer I had made, of receiving representations, at the beginning of this appearance, was agreed by the senators as sufficient to allay their fears.

Senator Macnaughton: Mr. Chairman, may I suggest that the honourable minister has made her case? So far as I am concerned, I am satisfied, and I will take her word—almost any time.

Hon. Mrs. Sauvé: Thank you very much.

Senator Macnaughton: I did say "almost any time"!

Senator Lang: May I draw the minister's attention to the second-last paragraph in the draft letter? You will note in the last sentence the words used are disjunctive. In other words, it was anticipated that hearings on broadcasting matters generally might not be compatible with the present hearings or discussions going on in connection with cable deletion. That was recognized by the committee. What the committee would hope that you might consider is initiating, after your evidence here today, other talks which would encompass broadcasting matters generally.

Hon. Mrs. Sauvé: I think I did say, in reply to one question, that this is being done on commercial deletion in such committees which have been formed by the FCC and CRTC, and that we have, through other structures, occasion to discuss matters relating to broadcasting between the United States and Canada.

Also I did say that within that committee, which is presently discussing commercial deletion, if the Americans brought up any other questions for discussion, we would be more than willing to consider and discuss them with them.

Senator Lang: May I make your words to that effect known to my counterpart American members on the Canada-U.S. interparliamentary committee?

Hon. Mrs. Sauvé: Yes, certainly.

The Chairman: You want to be somewhat aggressive, do you, with your counterparts?

Senator Smith (Colchester): I do not wish to take any further time, Mr. Chairman, but I do not want to be caught up in the declaration of conviction so eloquently put forward by Senator Macnaughton. I do not want it to be thought that, because I am silent, I accept his view.

Senator Buckwold: You are rarely silent.

The Chairman: Do you have any questions, Senator Smith?

Senator Smith (Colchester): All the questions have been asked, Mr. Chairman. I am just not convinced, and I want that to be understood. I do not want it to be said later that I did not make that fact known.

The Chairman: Thank you, Madame Minister.

Next, we have the Honourable Mr. Cullen, Minister of National Revenue.

Mr. Cullen, I believe you were present and heard my opening statement as to the purpose of this meeting. It is not a search for answers in the way we do when we are studying a problem initially. We are simply trying to find some common ground to overcome the differences in viewpoints that might lead to the committee being able to report the bill without amendment.

I recall reading in the committee proceedings of the other place and in the *Debates of the House of Commons* as well, I think—and you may have made the same comment before this committee—that your method of administering the “substantially the same” rule would be to make one determination in the course of the fiscal year, that determination being made at the end of the fiscal year, which would govern the application of the rule. Am I substantially correct in that respect?

The Honourable Jack Sydney Cullen, Minister of National Revenue: Yes.

The Chairman: This is an administrative practice, is it?

Hon. Mr. Cullen: When we look at a situation, we normally have to look at it as at the year end in order to determine the situation over the whole year.

The Chairman: If you have a situation where, for the first three months of the year, it can be quite readily seen that there is no substantial difference as between the content of the Canadian publication and the publication outside of Canada but for the rest of the year the “substantially the same” rule would not apply, that is one case where a determination at the end of the year would help. If “substantially” means the amount of time spent outside the law and the amount spent within the law, if you had that type of division, what would be the effect if you determined that for the greater portion of the year a given

publication could not be classified as “substantially the same”?

Senator van Roggen: Mr. Chairman, I apologize for interrupting before the minister replies to your question. The notice of meeting I received had no reference to its being *in camera*. Senator Lang's question to Madame Sauvé, as to whether or not he would be free to make her remarks known to his confreres on the Canada-U.S. interparliamentary committee, leaves me wondering whether these proceedings will be available publicly.

The Chairman: I have informed the Debates Branch that this record might be valuable to the committee in its deliberations and, therefore, we wanted to have a record of it, but that that record was not to be released until there was some further instruction, through the chairman of the committee; and that instruction would have to be received from the committee itself. In taking that step, I assumed that the committee would support me.

Senator van Roggen: So, I should treat it as an *in camera* meeting?

The Chairman: No person can walk into the *Hansard* office and obtain a copy of what has transpired here today without the Debates Branch's receiving authority from me to release such information, and I will not issue such an instruction without consulting the committee. Is that satisfactory?

Senator Flynn: The answer is clear, but the reason we are sitting *in camera* is not too clear.

Senator Walker: It is the biggest “camera” I have seen for a long time. What exactly is meant by “*in camera*”?

The Chairman: Having regard to the purpose of this meeting, the publication of what goes back and forth can convey an unreal or distorted view that might affect continued negotiations. That was my feeling in issuing the instruction that the meeting would be *in camera*, and “*in camera*” means that members of the news media cannot report these proceedings.

Go ahead, Mr. Cullen.

Hon. Mr. Cullen: Mr. Chairman, it would not be dependent on the basis of three issues out of 12, or four issues out of 12. Rather, it would be based on the overall content of the 12 issues, or whatever number of issues there were in the course of the year. It may be, for example, that a special issue is put out in January or in December that might be three, or four, or five times the size of the issues put out during the summer months. For that reason, we would not get locked in on the basis of three issues out of 12, or four out of 12, or whatever. It would be dependent on the overall content throughout the year.

It might well be that the summer issues of a given publication are rather slim, with the publishers really punching it home in the September, October, November and December issues insofar as number of pages, or whatever, is concerned.

The Chairman: Does that mean, then, that I take all of the issues for the different months and determine the percentage of compliance, or otherwise, over the whole year by adding up whatever percentage total one gets and, in effect, strike an average?

Hon. Mr. Cullen: I am not sure it would be the striking of an average, but it would be weighted. Some issues

during the course of the year may be rather substantial and others rather slim, so we would look at the content over the whole year.

The Chairman: It is usually the case that when they are thick it is because they contain more advertising, and if they have more advertising, there may be, although not necessarily so, less editorial material.

Hon. Mr. Cullen: That is conceivable.

The Chairman: I must be slow on the uptake today, because I do not know whether I have the picture yet as to just how you propose to make your assessment. You did not have this problem until Bill C-58 came along.

Hon. Mr. Cullen: We did not have this problem because people coming in understood the legislation and understood what was meant by it.

The Chairman: When you say people came in . . .

Hon. Mr. Cullen: I am sorry—inquiries came in.

The Chairman: —we were told during the course of the committee hearings that there have been no outside publications qualify as Canadian publications since 1965.

Hon. Mr. Cullen: I am not quite sure I follow you, Mr. Chairman. I am simply indicating that inquiries were made, not that a magazine came in and we had to make an interpretation.

The Chairman: But we were told that no magazines came into Canada that qualified under the ownership rule and under the content rule.

Hon. Mr. Cullen: That is right. Once you rule out the ownership rule, you do not have to worry too much about anything else.

The Chairman: Yes. I am glad to hear you say that, because Senator Manning raised that question, if you remember. He said, from the economic point of view, assuming Canadians owned 75 per cent, if the Americans held the other 25 per cent, they are not going to sell cheaply to the Canadian owners. That seemed to be some answer to dumping. Secondly, just look at it from the economic point of view. A 25 per cent interest will not cater to the Canadian owners. However, that may be arguing.

The other thing I wanted to ask you was this. We have suggested a provision dealing with retroactivity. What is the objection to it?

Hon. Mr. Cullen: To what extent? What are you talking about? What do you mean when you make a suggestion about retroactivity?

The Chairman: You see, the bill comes into force with respect to magazines and periodicals on January 1, 1976.

Hon. Mr. Cullen: Yes.

The Chairman: I am sure it was never anticipated that the bill would take that long in going through Parliament. It is because of the length of time it has been in the process that you have over-run January 1, 1976.

Hon. Mr. Cullen: We have all over-run it with sober second thought and first second thought; yes, we have.

The Chairman: So, anything we have said in our report was not a criticism, or a suggestion that this retroactivity had been deliberately planned; it just occurred because of the circumstances that arose. However, there is retroactivity.

Hon. Mr. Cullen: There is too much legislation that comes down dealing with finance. You said this was not an inquisition and I am simply expounding that, in effect, the notice was given by my colleague in January, 1975. He picked the date of January, 1976. It was a whole year's time frame. It is not unusual that tax legislation is passed after the fact, but people are bound by it, sometimes from budget night, sometimes from the date prescribed in the bill.

The Chairman: That is getting into a question about which I said there was no suggestion; there was no suggestion that there was anything deliberate.

Hon. Mr. Cullen: I was not in the cabinet then, but I would assume Mr. Faulkner expected the bill would pass probably before the summer.

The Chairman: The effect now is that you do have a retroactive feature, which takes you back to Bill C-58 effective January 1, 1976.

Hon. Mr. Cullen: I guess it is a case of how you and I define "retroactivity". I am saying that this is not an unusual feature in a finance bill.

The Chairman: Oh no, but I also know that there is a great repugnance to retroactivity, except where it can be established as being absolutely necessary. When it happens fortuitously and not by design, then I think there might be some tendency to correct that situation.

Hon. Mr. Cullen: Again, I understand that Mr. Faulkner is coming tomorrow. It is his bill, and that would be a matter you would probably discuss with him.

The Chairman: I thought there might be some tax administration connected with it.

Hon. Mr. Cullen: No. We administer it the way they print it, bring it out and pass it. Sometimes we like what we have to administer and sometimes we don't.

Senator Macnaughton: Which comes first?

The Chairman: Maybe we should have provided that they consult you.

Hon. Mr. Cullen: I was not in the cabinet when they started this thing.

The Chairman: It would not be fair to ask you how you could remove this difficulty, would it? Let us assume that what I call retroactivity does pose a problem. Do you see any way, without amending the bill, by which that could be accomplished?

Hon. Mr. Cullen: I am not that well versed in the administration of the bill that I could foresee that in fact taking place without an amendment. It is a pretty precise date. It has been hammered home, I think, on more than one occasion by my colleague the Secretary of State that it is in fact a firm date, that it is in a finance bill, that people have had a year's notice. It is almost an hypothetical situation that you are asking me to comment on, because in the event that the minister responsible for the bill does not see fit to change the date, then we really do not have to

scurry around and find a way in which it can be done. If he should determine in front of you that it is going to be done, we would, of course, have to take a look at it.

The Chairman: We are taking advantage of your being here to try to explore this.

Hon. Mr. Cullen: I appreciate that.

The Chairman: It is for the purpose I stated at the opening.

Hon. Mr. Cullen: I appreciate that.

The Chairman: on the question of "substantially the same," first of all let me lay the groundwork. I know, because you and I checked it when you were giving evidence, you had one copy of the House of Lords' decision and I had another copy . . .

Hon. Mr. Cullen: We read from the parts that suited our case, I think.

The Chairman: That is right.

Hon. Mr. Cullen: As good lawyers always do.

The Chairman: That is right; but I was not referring to it for that reason. What I was referring to it for was that the consensus seemed to say, "If you are going to fix percentages, you should legislate." Now, I know that is the legal background in the jurisprudence. What I would like to explore is why there is an objection to going to the court for an interpretation. You do not need to tell me that if a taxpayer has a problem of that kind, a "substantially the same" problem, and you assess, he can go to the courts as of right. I know all that. What I am saying is, if he plans to invest and he wants to get an interpretation, why should he not be able to go to the courts? What is the objection to it?

Hon. Mr. Cullen: I think, first and foremost, you are dealing, in effect, with a hypothetical situation, which the courts do not do. You are talking about a magazine that is not even in the country yet. We do not know what the ownership factor will be. You are looking at possibly one magazine. What are you comparing it with? I think there is a myriad of road blocks in that. My personal view is that the concession—if you want to call it that—that we have made is that I am prepared—and I indicated I would have preferred this approach originally in legislation to define it, that we introduce legislation to define what "not substantially the same" means. That would seem to me to meet the argument. People would know where the heck they stand.

I tried to indicate, when giving my evidence before this committee and the committee of what you call the other place, that this was not just an interpretation, it had the backing of cabinet, so in the event a case is eventually taken to court I wanted, as a courtesy, to let the people know this was in fact government policy. I would prefer it in legislation; I am prepared to introduce legislation under a notice of ways and means motion to define "not substantially the same."

The Chairman: Without reference to the 80 per cent?

Hon. Mr. Cullen: In the concession I am making now, most assuredly I would define "not substantially the same" in the way government policy has in effect defined it, the way my department has interpreted it, the backing I

had of my colleagues. What we mean by "not substantially the same" is 80 per cent different; otherwise we might as well tear up the bill.

The Chairman: What you are telling me is that if you introduce the bill and by legislation establish a percentage basis for determination of the question—of course, there is no question but that Parliament can do that; nobody can dispute that . . .

Hon. Mr. Cullen: With the appropriate notice of ways and means motion, yes.

The Chairman: What I am getting at is that, in the language of such an amendment I thought there were two situations. I thought there was one situation where such a bill would contain an 80 per cent statement in the course of the definition, or it may not contain any reference to a percentage, in which event you would have to deal with it by regulation.

Hon. Mr. Cullen: I mentioned putting it into legislation primarily because I think from sober second thought suggestions here that if we put it into regulations it is very easy for a cabinet, by order in council, to change the 80 to 90, or change it to 100. The feeling we had, from the committee in the other place and from this committee, was that they wanted it right in the legislation so that you would know precisely where you stood.

The Chairman: Right.

Senator Lang: In regard to the retroactive aspects, would you be prepared to make a commitment that any taxpayer adversely affected by the retroactive provisions could obtain relief under section 16 of the Financial Administration Act?

Hon. Mr. Cullen: Is it section 16 or section 17? I believe it is section 17. I would not want to argue with you on that, but I know the one you are talking about, anyway. I would say that I cannot stop any taxpayer from making an application, but I could never say in advance what my decision would be. You have handled these cases, and you know there are not many successes. I might say that the Retail Merchants Association told me recently how wonderful we were in this area, and the fact is that there have only been 20 granted out of the hundreds who applied.

I would certainly not make a commitment. I would say to them that this avenue is open, but I would not raise any false hopes. I would be less than honest were I to do that.

Senator Lang: When Mr. Benson was the Minister of Finance he did make such a commitment with respect to the new Income Tax Act at that time and those who might be inadvertently adversely affected during the transition period, so there is a precedent for using the ministerial commitment as an instrument.

Hon. Mr. Cullen: I am not saying that. The point I am making is that I will not commit myself, in advance, that they will get a favourable decision. I am simply saying that that avenue of relief is there and that they should make the application and we will have a long hard look at it, but I could not say in advance, "Yes, you are going to be okay" Commissioner Benson notwithstanding.

The Chairman: So far as that question is concerned, it would be your job, as minister, to make the recommendation of the Governor in Council under the Financial Administration Act.

Hon. Mr. Cullen: Subject to things that may occur this summer, yes.

The Chairman: So the proper person to apply to would be the Minister of National Revenue.

Hon. Mr. Cullen: Yes.

The Chairman: Without your recommendation, the thing just does not go forward.

Hon. Mr. Cullen: That is one of the few discretions I have, yes.

The Chairman: So, all you are prepared to say now is that you would have a good hard look at it; and I am hoping that my interpretation of a "hard look" is what you are thinking of.

Hon. Mr. Cullen: I would not want anyone to think we would take a longer, harder look at this one than at the others. They are all given careful scrutiny. Probably in 99 per cent of the cases the applications are made in good faith by people who are satisfied that they have suffered an injury and that the ministerial discretion should be exercised. We are a compassionate department and we look at all of them very carefully.

The Chairman: I know that. Are there any other questions?

Senator Buckwold: As one who was waiting for the minister's undertaking, as you call it, I can say that I am satisfied with respect to "substantial." I feel that the proposed legislative definition of "substantial" is outlined, and it certainly meets my objection to the original bill. I would like that to be known.

Senator Cook: It meets my objection also, which was that it should be in Parliament. If it goes back to Parliament, that will satisfy me.

Hon. Mr. Cullen: I made the statement in this committee, and in the other one, that I personally would have preferred that route.

Senator Cook: My point is that this sort of thing goes a little beyond this bill or any other bill and should be in Parliament. If you undertake to put it to Parliament, then I am perfectly happy about it.

Hon. Mr. Cullen: I am giving that undertaking to introduce a bill to define "substantially the same."

Senator Austin: In the next session?

Hon. Mr. Cullen: Yes.

The Chairman: Are there any other questions? The only questions in our report that relate to your department are the question of retroactivity—and I think you know what I mean by that . . .

Hon. Mr. Cullen: Oh, yes.

The Chairman: —and the question of "substantially the same," and you have been clear on what you would do with respect to that. If you introduce a new bill at the next session it will contain the 80 per cent ruling.

Hon. Mr. Cullen: Yes, sir.

The Chairman: And there is no possibility that a bill would be introduced which did not contain the 80 per cent ruling.

Hon. Mr. Cullen: No. I think that if I changed that I would be like the old politician who said, "Here are my principles. If you don't like them, I have another set." I am going to stick to my ground.

The Chairman: Are there any other questions?

Senator Walker: Mr. Chairman, are you satisfied with that? I thought this was what we were fighting about, the 80 per cent.

The Chairman: No. As a matter of fact, we were not fighting about the 80 per cent. The 80 per cent is not in the bill, and what we were saying is that there is no way under the existing law by which you can get at a determination of what, percentagewise, makes it "substantially the same". This was the angle we were proceeding on.

Senator Walker: Are we still going to proceed on it about the appeal to the courts?

The Chairman: What I said was that there is no way in which any person can interfere with Parliament and prevent Parliament from passing legislation in relation to the application of a percentage rule to the question of "substantially the same."

Senator Walker: We have known that for months. We know that.

The Chairman: Yes.

Senator Walker: Well, what is new?

Senator Cook: What is new is that Parliament is now going to do it. That is the point. Parliament will do it. We are part of Parliament, and when it gets to Parliament it might be knocked down to 60 per cent or knocked up to 90 per cent. I don't care, so long as Parliament sets the rules.

The Chairman: It might be knocked down in this house.

Senator Macnaughton: This is a straight commitment, and we should be satisfied with it, it seems to me.

Senator McIlraith: That is right. It is a straight commitment to bring it to Parliament, yes.

The Chairman: If there are no other questions, I was saying that there are only the two points that hit on your department and I wanted to clarify those, and I have. We don't want to impose unduly on your time, Mr. Minister. Thank you very much for having come.

Senator McIlraith: Mr. Chairman, before the minister leaves, there is the other point which is outstanding in the report which we will be dealing with tomorrow. Will the minister be available tomorrow morning? If not, will his official?

The Chairman: The minister will not be available, but his official will be, yes. The meeting is adjourned until tomorrow morning at 9.30.

The committee adjourned.

Ottawa, Thursday, July 8, 1976

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-58, to amend the Income Tax Act, met this day, *in camera*, at 9.30 a.m. to give consideration to the bill.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, we have the Secretary of State here this morning. He is under some commitment that does not make unlimited the time he can spend with us. I expect that when he feels he has to meet his next commitment he will give us a signal, because we are not going to be clock watchers.

I made a preliminary statement yesterday, when I heard the other two ministers concerned with this bill, that the purpose of this meeting is entirely different from the purpose of the earlier meetings the minister attended. What we have now is a report, and an indication that it is not acceptable to the government. We are at the stage of the procedure now to see whether there is any area in between which can profitably be explored in order to let the bill go forward without amendment.

I merely mention that so that the minister will understand that it is not the same kind of meeting that he attended before. The meeting is now open.

Senator Walker: I know the minister has to get away at 10 a.m. With reference to "substantially the same," what is his understanding now of the proposed change that the government is undertaking to make, if the bill is allowed to go through in its present form?

The Honourable J. Hugh Faulkner, Secretary of State of Canada: My understanding of it is that we would introduce legislation next fall to put our interpretation of "not substantially the same" into statutory form.

Senator Lang: Would that remove ministerial discretion from the interpretation of those words?

Hon. Mr. Faulkner: That would remove ministerial discretion from the interpretation of those words; that is right, senator. It would lock in that interpretation.

Senator Lang: From a political point of view, would it not be a lot easier to take an amendment to the Commons that was in the form, or substantially in the form, of the proposal in the committee's report, rather than taking an amendment through the figure 80 per cent?

Hon. Mr. Faulkner: As I have explained many times, 80 per cent is absolutely central to it.

Senator Lang: I am talking politically, not policy.

Hon. Mr. Faulkner: You have had more political experience than I. You may be absolutely right; but I happen to feel fairly strongly that this is the way out. Perhaps you could elaborate. What are you suggesting that we should do instead?

Senator Walker: We thought there was going to be an appeal to the court.

Senator Lang: That was our recommendation.

Senator Cook: I thought we were satisfied with the undertaking of the Minister of National Revenue. His undertaking was that the government—he spoke on behalf of the government—would introduce legislation to define "substantially the same." How it is defined would come in the legislation and, of course, would be arguable. But as I understood it, the undertaking on behalf of the government to introduce legislation to define "substantially the same" closed the issue.

The Chairman: Whatever it is, it has to be concurred in by the Senate.

Senator Cook: I agree.

Senator Walker: How can it close the issue?

Senator Cook: In this report . . .

Senator Walker: What about the right to appeal to the court? Is that all blocked out now? We are no further than we were when we started. Eighty per cent is going to be put in the legislation as "substantially the same." There is no right of appeal to the court. The only appeal is to get this thing through Parliament. What is the difference between that and what we had before we started talking?

Senator Cook: If Parliament says 80 per cent, there is no question of it being in the court. That is the law. The argument from my point of view is simply that the executive was endeavouring, as we said in our report, to legislate; and, at the same time, in doing that, denying the taxpayer the right to appeal to the court.

Senator Lang: In view of the very limited time of the minister, I wonder if members could reserve their discussions until later.

Senator Cook: But I can make an observation, surely?

Senator Walker: We are delighted to have you do that at any time.

The Chairman: We are not having this meeting this morning for the purpose of a debate between two members of the committee.

Senator Cook: If the questions are irrelevant, I am entitled to say so.

The Chairman: If you have any views, you may state them. I am simply saying that we should not have a debating spree between members of the committee.

Senator Walker: Mr. Chairman, I fail to see that any help has been given or that we have decided on anything. We are back where we were originally, except that the matter is going to be introduced into Parliament and "substantially the same" is going to be defined as 80 per cent. There is no allowance for an appeal by anyone to the courts. That is what we have been discussing for the last three months.

The Chairman: If it is an amendment to the Income Tax Act, which it would be, it would be subject to whatever appeal provisions are provided in that act.

Senator Walker: If it is 80 per cent, there is not much in the way of an appeal, is there? We are back where we started. We have not accomplished anything.

Senator Laird: Isn't the important thing, Mr. Chairman, that it is in legislation instead of being left to the discretion of the minister by regulation? Because it is in the form of legislation, we in the Senate can move an amendment changing that 80 per cent to some other figure. Isn't that the difference?

The Chairman: Yes. Putting the authority in the act and then having a regulation to cover the percentage does not provide the same access to the problem.

Senator Laird: Precisely.

The Chairman: If it is in the statute, it is fair game for either the House of Commons or the Senate to amend it and vote on it. The vote would have to be clear-cut. It would either be approved or not approved.

Senator Walker: But there is no change in government policy; it is exactly the same as it was previously.

The Chairman: From what the minister said yesterday afternoon, he intends that the percentage would be the interpretation the department has given it. I do not know whether he said, that as a matter of government policy, but as a matter of understanding, as far as he and the other ministers are concerned, that it would be interpreted as 80 per cent.

If there are no further questions on that, we will move to the next point.

Senator Austin: Mr. Chairman, I should like to direct a question to the minister regarding *MD*. That is the only question left outstanding in terms of the Committee's report. As one member of the committee, I am satisfied that Madame Sauvé and Mr. Cullen covered the other points.

As you know, Mr. Minister, this committee questioned whether there was some room for recognition by the government of the special situation of *MD*. I should like you to comment on that and perhaps go over your reasons for not having allowed the continuance of the exemption in respect of *MD*. In addition, Mr. Minister, I personally have taken the position that some transitional period should be allowed *MD* to try to adjust to the passage of this legislation. Perhaps you could comment on whether a transitional period where *MD* is possible.

The Chairman: Senator Austin, I understand there has been an indication that the idea of what one might call time to find one's feet, or to comply, or to phase out, is agreeable to the government—at least, I understand that to be the view.

Have I misinterpreted that, Mr. Minister?

Hon. Mr. Faulkner: I am not aware of it, Mr. Chairman. I do not want to be unfair. As I understand it, *MD*, as has *Reader's Digest*, had this year to adjust, this fiscal year, and, of course, last fiscal year as well.

Senator McIlraith: Did you say "fiscal" year?

Hon. Mr. Faulkner: I am sorry, calendar year.

Senator Sullivan: Mr. Chairman, returning to Senator Austin's remarks, I covered all of that in the speech I made in the Senate regarding *MD*. As a medical man, I feel that I can speak with a certain amount of authority about this publication.

The Chairman: It is not a medical magazine.

Senator Sullivan: I beg your pardon; it is.

The Chairman: The income tax people don't think so. They allow the exemption on the basis that it comes under the heading of fine arts, letters and scholarship.

Senator Sullivan: Then I will call it fine arts, if you wish.

Senator Macnaughton: Call it cultural.

Senator Sullivan: How did it ever get in the legislation? Because it was not considered fine art?

The Chairman: All I can say is that I talked to Dr. Gibson too. They agree that it does not qualify as a medical journal.

Senator Sullivan: It is recognized throughout the world as one of the outstanding journals on the history of medicine.

The Chairman: It may be.

Hon. Mr. Faulkner: Mr. Chairman, I do not want to quarrel with the senator on the quality of the magazine; that has never been at issue with me. I agree with you completely that it is an outstanding magazine. However, I also happen to think that *Time* magazine is an outstanding magazine too. There is a variety of outstanding magazines. Under clause 19(4), the purpose of eliminating the provision was in order to ensure that this particular fiscal privilege, if you like, be directed towards the support of Canadian magazines, whether they be medical, cultural, fine arts and so on. In that sense, I do not think that *MD of Canada* qualifies in terms of our definition of what a Canadian magazine is.

I hope there is no suggestion in the mind of any senator that I do not think it is a first-class magazine. It is a first-class magazine. Our hope in eliminating this exemption is to encourage Canadian advertisers to support Canadian medical magazines, or which there are a few, Canadian fine arts magazines, of which we have several. In the fine arts category, for instance, which is the category we are talking about, there are magazines like *Arts Canada* and *Vie des arts*. Those are now being largely carried by the Canada Council. I just wonder how long this dimension of our cultural periodicals can go on simply through handouts from the Canada Council. At what point can we move them into the field where they are operating on something like a viable basis, like magazines of a comparable kind in practically every other major country in the world? That is really the issue, not the quality of the magazine, not its reputation, because I think there is agreement on that.

Senator McIlraith: We have passed that point. What we are concerned with this morning is that we have a committee report to the Senate rejecting this, but only in an effort to deal with *MD of Canada*. It is in an effort to deal with that point that we are concerned this morning. I rather picked you up a moment ago on what I thought might be of some assistance when you spoke of the fiscal year, because I believe there may be a possibility of some extension of time, if you like, through the interpretation of "fiscal year" as distinct from the calendar year. Have you addressed yourself to that rather narrow technical point?

Hon. Mr. Faulkner: That may have been precisely the point Senator Hayden was referring to, but that has not been the subject of discussion with me. That may have been a subject of discussion with the Minister of National Revenue, who would have to make a ruling on that. I am not sure what the point is. Would you provide an extension of the three months that distinguish the fiscal year from the calendar year? I am not certain what point you are getting at.

Senator McIlraith: I do not know what their fiscal year is, but it would make a difference, because once the bill comes into force, which as far as the periodical press part in concerned is immediately it is passed, there is no hiatus of time at all, there are no provisions in your bill other than once it comes into force; that is an absolute cut-off.

The Chairman: The moment the bill comes into force it goes back in its operation to January 1, 1976.

Senator McIlraith: January 1 this year. It seems to me there is room in there to deal with this point.

The Chairman: I had information, the source of which I cannot discuss, that the government was prepared to yield to the extent of permitting a period of time before it would become subject to the act. In other words, it would be subject to a proclamation to fix a date at a certain later period in time, and it would specifically name *MD*, and that would be a very simple amendment.

Hon. Mr. Faulkner: I am afraid that amendment was not discussed with me, senator. It would be one I would have difficulty with.

The Chairman: We have you here now and we are discussing it with you. We have gone through point No. 1. Now we are at point No. 2.

Hon. Mr. Faulkner: Right.

The Chairman: If we keep on at this rate and in this form we will go through the four points and we will have no assistance from you.

Senator Macnaughton: Mr. Chairman, what would be the phrasing of the amendment you are suggesting?

The Chairman: You would say, "Notwithstanding the provisions of Bill C-58 on these points, the *MD* provisions that are in the bill shall be proclaimed not earlier than such-and-such a date."

Senator Benidickson: Mr. Chairman, did you not recommend that the effective date of the cut-off of the tax deductions for Canadian persons advertising in foreign media be January 1, 1977, instead of January 1, 1976?

The Chairman: That is on the retroactive feature. It is one of the four amendments we have proposed, but we are only dealing with the second point at the moment. We will be on that point shortly.

Senator Buckwold: Mr. Minister, are there other magazines we have not heard about that have been affected as *MD* has been affected?

Hon. Mr. Faulkner: There are two that come to mind immediately. *Modern Medicine*, in fact, is in the process of adapting and will probably adapt quite comfortably. It is following the pattern of *Reader's Digest*. It is adjusting. Then, drawing from memory, there is a magazine on human sexuality.

Senator Buckwold: In fact, if you made an exemption for one it would be only fair to do so for others.

Hon. Mr. Faulkner: Oh, I think so. I would perhaps beg to differ with some members of the committee. It would be hard to draw a distinction between *Modern Medicine* and other magazines Senator Benidickson was referring to, even though it is fait accompli. It might substantially affect the pattern in which they adjust.

Senator Buckwold: Mr. Chairman, I do not believe you can do for *MD* what you do not do for others. Moreover, *MD*, like other magazines, has had many, many months of warning that this was going to happen. It is not something that is new.

The Chairman: Senator Buckwold, I would just like to pose a question to you. Were you here yesterday afternoon when Mr. Cullen spoke?

Senator Buckwold: Yes, I was here.

The Chairman: He said something, too, when I raised this question of going back to a much earlier period and why the liability should not arise at the earliest at the date of proclamation or upon royal assent. He said that they had had notice for over a year from the minister's statement in the house before the bill was introduced.

Now, that concept of the exercise in ministerial discretion is completely wrong in my opinion, and I think it is wrong in the opinion of most of the members of this committee; because why should you be put on notice when there is an announcement that there is to be a bill with certain terms and you must start preparing for it right away? You have no obligation to do so until the bill becomes law. This is one thing that bothers me, and bothers me a great deal.

Senator Buckwold: Just in response, I really feel that these magazines had ample warning, and that they undoubtedly are already making arrangements to protect their flanks somewhere, perhaps by the use of lower rates in Canada that would compensate for the income tax loss. There is a variety of things that could happen to these magazines. It will not put them out of business. I just suggest to you that I do not find that situation as serious as you do.

Senator McIlraith: That means that Parliament does not have any say in government legislation.

Senator Smith (Colchester): Mr. Chairman, why should we get involved in this argument when we only have a limited time with the minister? We have all the time we want to take to argue among ourselves. Why should we not spend the time the minister can spare for us in talking with him?

Senator Walker: We have only six minutes left, so let's get on with it.

Senator Macnaughton: My question follows up on your suggestion. As I understand it, the idea is to give a further period of adjustment.

The Chairman: That is right. I understood that there was support on the government side for that, and on that basis I drafted what I thought was a form of amendment in respect of which a simple undertaking could be given, so that then we would wash that amendment out of our report. At least, I assumed we would; but if that is not the case, and there is no elbow room on that, you can tell us, Mr. Minister.

Hon. Mr. Faulkner: I do not want to appear to be intransigent. I know I have the unattractive reputation of being intransigent, but I have to come back to the two points that Senator Buckwold made. I do not know how we can legitimately distinguish between one magazine and others, in the first place. I do not know what would be the justification for making that distinction, either intellectually or otherwise. In the second place, I happen to think that we did the right thing by giving these magazines notice. I know we agonized in government for about six months to a year on it, and I came out very strongly against some of my colleagues, who felt that six months was quite adequate, and I said, "Well, in some cases there might be a

difficult adjustment to be made. Why do we not give them a year's notice?" I thought I was doing the magazines in question a favour by indicating my legislative intentions long enough in advance for them to mount a case. I never thought they would mount as vigorous as lobby as they did, because that in fact was what the year was devoted to, namely, trying to change the legislation. I do not fault them for that. I left myself open to it. Certainly, my intention was to give them a year's notice so that they could make the sort of adjustment that was needed, and then they would have the further year to make adjustments if they could not make them within the pattern of a given year. I do not want to be intransigent, but I do not find any very compelling arguments for yielding.

The Chairman: What I think the committee is interested in is not arguing the point so much now, but knowing whether there is to be any yielding on it, and that is the question I put to you.

Senator Flynn: We have had the reply, I think.

Hon. Mr. Faulkner: Yes. That is my position.

Senator Macnaughton: I would like to come back to this point again. It is all very well for government ministers, or officials, or anyone else, to say, "You have had notice," but it is very difficult to keep up with the volume of legislation going through. On Bill C-20, for example, the Canadian Bar should have been here a year ago, but it is just a question of human nature. One cannot keep up to date with everything. You are at the core of legislation, but the other 21 million members of the population are not necessarily as up to date as you are.

Hon. Mr. Faulkner: That is true, senator, but we did make a point of actually having meetings with some of these groups during the course of the time involved. I do not think *Md of Canada* felt it knew anything about it until late on in 1975, although I may be wrong on that.

Senator Macnaughton: This is like an appeal at the foot of the throne.

The Chairman: Let us assume that the minister's purpose, as he says, in announcing so far in advance and before the bill was introduced, was to provide ample notice. That still does not deal with the problem, as I see it. That should not be described as the kind of notice that is effective when the bill comes in, because the bill could have been changed, or might have been changed.

Senator Macnaughton: Or dropped.

Senator McIlraith: Or defeated in Parliament.

The Chairman: All I am asking the minister now is, do we move on the next point, and regard this one as a point that is not subject to any yielding or undertaking?

Senator Austin: Mr. Chairman, since I asked the question that started this discussion, I wonder if you would allow me to make a suggestion to the minister. I am absolutely in accord with your concern about the quality of notice given to people in this category, and I wonder, Mr. Minister, whether it would be possible for you and Mr. Cullen to consider this morning briefly the possibility of allowing *MD* and other magazines in this category a period of an additional year in order to endeavour to adjust their business circumstances to the bill. You could do that, I believe, under the Financial Administration Act by an undertaking—and that would be Mr. Cullen's under-

taking, I presume—to remit to advertisers in magazines in the 19(4) category any taxes which would otherwise become due and owing under Bill C-58 as passed.

The Chairman: Well, when you say a year, the information I had was that two years would be acceptable.

Senator Austin: I have no objection to two years. My concern is the same as yours—that these people be given an appropriate period of time in which to deal with the legislation as passed.

The Chairman: You know, there is the additional argument, so far as broadcasting is concerned, that the people who have advertising contracts and have certain conditions in them have an exemption for one year after the bill is proclaimed in relation to broadcasting. That has given them effectively almost two years in that it gives them from January 1, 1976.

Senator Austin: I would hope that Mr. Faulkner would consider that as a possible parallel.

The Chairman: I am sure the broadcasting people will have good lawyers who will rewrite their advertising contracts on August 31.

Hon. Mr. Faulkner: If the request, senator, is that I take this proposal and suggestion to my colleague and talk to him this morning in cabinet, I will do that, sir.

Senator Flynn: But that does not solve the problem because, as I understand the report of the committee, we want this type of magazine to be exempt from the law, not simply to have a delayed execution.

The Chairman: That was our position in our report, but the government position, and what brought about these meetings, is an effort to find some middle area that we may bargain in. And it seemed to me that for the purpose of bargaining I was ready—and I am not trying to impress my view on any other member of the committee—I was ready to say, "Well, if they get an exemption for two years before the law comes into force for them, that gives them a reasonable time either to phase out or to meet the requirements of Canadian law or carry on for the two years and then move out."

Senator Flynn: In the case of *MD* they said they could not, in any event. So, to me, that does not provide a solution to the amendment proposed by the committee. Of course, if the committee wants to change its report, that's another thing.

The Chairman: Well, senator, my philosophy is that if you can't get in the front door then try the side door.

Senator Flynn: Yes, but not only just to appear to do so.

The Chairman: I think the committee would like to know what the attitude of the government is.

Senator Perrault: Mr. Chairman, I had a call from Dr. Gibson yesterday and he told me that every effort was going to be made in the next few months to place this magazine under Canadian ownership. I thought it was quite an encouraging conversation. He has some hope that some specific action is going to be taken.

Senator Walker: What would you suggest, Mr. Leader?

Senator Perrault: It is not for me to suggest anything; but I think it is encouraging.

Senator Walker: It is not for you to suggest anything? What have you been doing for the last month?

Senator Perrault: I am addressing my remarks to the chairman, and I think the honourable senator should do the same thing. As I say, Mr. Chairman, it was an encouraging conversation and I think we are going to see this magazine come under Canadian ownership.

The Chairman: My purpose in putting the question to the minister was because he said no amendments would be entertained by the government. That is why my opening remarks this morning were seeking a new area, to see how close we could get.

Senator Perrault: I think the idea of a talk between the two ministers is a useful one, Mr. Chairman.

The Chairman: I want to know, for my information, how far he is ready to go, because this is really a co-operative effort now.

Senator Walker: Would you recommend two years, Mr. Minister?

The Chairman: The minister has said that later today he will give me the answer to the question I suggested.

Senator Walker: Would you recommend two years?

The Chairman: My suggestion was that *MD of Canada*, in effect, shall not be subject to the provisions of Bill C-58 until two years from this date.

Senator Forsey: Would your suggestion cover other periodicals in the same class, or would it be specifically *MD of Canada*?

The Chairman: We are talking about *MD of Canada* now.

Senator Forsey: It was wondering about the form of your amendment.

The Chairman: We started with "substantially the same" and had discussion on that, and all the minister was prepared to say there was that they would even undertake to introduce a bill . . .

Senator Forsey: I know all that. I simply wonder whether in the suggested amendment that you are talking about now you are going to mention *MD of Canada* specifically, or whether you are going to apply it to the others in clause 19(4).

The Chairman: Nobody else has appeared before us and asked for any relief.

Senator Laird: The minister himself said he applied it to a class.

Hon. Mr. Faulkner: Senator Austin's proposal was that it apply to all magazines. You have some indication of my views on that proposal. I am prepared to take this proposal to my colleague and discuss it with him and tell him the support it has. I think we should be clear that we are no longer talking about *MD of Canada*; we are talking about a blanket exemption for all. I am not in favour of that, but I will certainly take it to my colleague.

Senator McIlraith: May I make this point? We are dealing with section 17, I think it is, of the Financial Administration Act; it quite proper in that case, and it is specifically designed to deal with individual cases.

Hon. Mr. Faulkner: That is right.

Senator McIlraith: May we leave this class proposition? No one else in that class appeared before us with a problem and no representations were made to the committee. *MD of Canada* was the only one, so it is possible, with propriety, subject to further consideration, to deal with *MD of Canada* alone under that provision. That is the purpose of the provision.

Senator Lang: No amendment is required.

Hon. Mr. Faulkner: No amendment is required. I think the problem with this route—and this is why I am prepared to take it to my colleague—is that it seems to me it will be difficult, under the criteria of that section, to justify it. I would be interested in your comments on that. It seems to me that we are stretching the interpretation of that section quite a lot to accommodate *MD of Canada*.

Senator Lang: It is pretty broad, Mr. Minister; the words are very broad.

Hon. Mr. Faulkner: I am just giving an interpretation. I am not a lawyer, so I may be dead wrong, but when we looked at them it seemed to me that we would really be stretching the interpretation somewhat to accommodate *MD of Canada*. I do not know how you can distinguish between, say, *MD's* case for an exemption under this and *Time*, *Reader's Digest*, and so on.

Senator McIlraith: I think we can distinguish it. This is my point. I think that section would bear very careful examination, if you don't mind my suggesting it.

Hon. Mr. Faulkner: Sure.

Senator McIlraith: I think the nature of the provisions made the very difficulty you have raised, and our amendment is in the report that did go before one of the house of Parliament.

Senator Cook: In any case, it is accepted in principle. I understood the Minister of National Revenue, Mr. Cullen, to say yesterday that that was the sole discretionary power left to him, so the problem would be his and not yours.

Hon. Mr. Faulkner: That is right. That is why I do not want to prejudge it. That is why I am going to take it to him and tell him that this seems to be the view of some of the members of this committee. I will put it to him.

Senator Walker: Will you leave it to him and not give your own opinion?

Hon. Mr. Faulkner: That is an awful lot to ask of me, senator! He, of course, is not bound by my opinion.

Senator Bell: Before he leaves, I wonder if I could ask the minister a question with regard to specialized magazines. I wonder what his colleague, the Minister of Industry, Trade and Commerce, would say to the proposition that we would very much like Canadian producers of various products—cattle breeders, for example—to be able to get these advertised and promote their sale. They need a vehicle which will reach the specialized professions, a vehicle in order to advertise their Canadian products and expand their market. That might be a consideration that you should take into account when dealing with the specialized magazines.

Hon. Mr. Faulkner: That would be the advertiser's problem. Is that what you mean? I am not sure I heard you.

Senator Bell: Yes, getting this market.

Senator Benidickson: If the minister is about to leave, I have one point to raise. I have not been a member of this committee, but I think this is a matter that bothers a number of senators. After this committee made its report and there were indications that there was likely to be some conflict between the committee report and approval of the bill, I am told that the minister is quoted as having said to the press that he was confident that, despite the report, there were enough government supporters in the Senate to carry the bill. I do not know whether he said that or not.

Hon. Mr. Faulkner: No, I did not say that. I never referred to "government supporters." I said, in face of the question, that I would hope—I do not think I put it stronger than that—that there would be a majority of senators who would support the principles of the bill. What worried me about the amendments was that they appeared to run the risk of undermining the effectiveness of the bill.

The Chairman: Mr. Minister, on that point, the report supports the principle of the bill.

Hon. Mr. Faulkner: We can argue about that.

Senator Cook: I don't think this is relevant.

Hon. Mr. Faulkner: I think there are still some areas where we might well argue that.

The Chairman: Not if you distinguish between the principle of the bill and the various areas.

Senator McIlraith: I do not think that discussion is relevant this morning at all. The minister is, of course, entitled to his opinion.

The Chairman: He is going to attempt to deal with it.

Senator McIlraith: On this specific point he has undertaken to go to his colleague and discuss it.

The Chairman: The next amendment we should discuss is the retroactive feature, as I would call it. I talked to the Minister of National Revenue yesterday but we did not advance any distance at all along the road to compromise. Let us put it that way, nicely. I have a suggestion that I would like you to consider. One way of dealing with retroactivity—and, of course, you could deal with *MD of Canada* the same way—would be by remission under section 17 of the Financial Administration Act, so as to remove the retroactive effect, which would be from whatever day the bill becomes law going back to January 1, 1976; you could undertake that remission would be recommended. Now, that is all the minister in charge can do, because I think the procedure is that there is a recommendation by the Treasury Board to the Governor in Council, but I think the thing would have to start as a recommendation of the minister with whose department the administration of this bill rests. So it would be in your hands, as the minister in charge of the bill, to undertake to recommend, and it would deal with a substantial part of the problem. It would not deal with the entire problem, Senator McIlraith.

Senator McIlraith: No, but it would deal with that bit of a problem that covers the early months of this year in which there might be an innocent advertiser who advertised a year ago, having entered into a contract before notice was given and before the bill was presented to Parliament.

The Chairman: Are there any other questions on that point?

Senator Austin: No.

Hon. Mr. Faulkner: Do you want me to comment on that, or to reflect on it?

The Chairman: I think you could reflect on it.

Hon. Mr. Faulkner: I apologize for having to leave, but, without revealing too many secrets, one of the issues we are discussing this morning is dairy policy, and 25 per cent of my electors are dairy farmers. You will forgive me, then, if I go and work with my colleague the Minister of Agriculture.

The Chairman: If you are talking on that subject this morning, it might put you in a good mood to come back very nicely to us with perhaps some more of the milk of human kindness.

Hon. Mr. Faulkner: Thank you, senator.

The Chairman: Honourable senators, there is still left one item on which we have proposed an amendment. We questioned Madame Sauvé yesterday. She went a certain distance in what she was prepared to do with respect to the proclamation date, or the date on which the bill was to be proclaimed. She said she would accept the conditions that are in the statement of the Secretary of State to the House of Commons made on January 23, 1975. Then she was asked to confirm when they were proposing to proclaim the broadcast sections, and she said it will be about September 1, and it was intended to proclaim them generally because there is no provision in the bill for separate proclamation of different parts of the bill—specifically, the broadcasting part. There is simply the authority to fix a date for the coming into effect.

Now, the language of one sentence, which is the condition that the Secretary of State told Parliament would be followed, is this: He says that such an amendment—and he is talking about the proclamation—would not, of course, come into effect until sufficient advertising time is available on Canadian stations to satisfy Canadian needs adequately. Now, she said she would do what was required in order to satisfy herself that the Canadian needs were adequately satisfied before she proclaims, and my understanding of her evidence—and you people were there—is that she would conduct a hearing.

Senator Austin: No, I believe she said she would receive briefs.

The Chairman: She looked a little upset by the idea of a "public" hearing, but I said to her to forget about the word "public" at the moment. I asked her if she would consider a hearing at which the interested parties would be heard. In the beginning she had objections, but my understanding of what she said ultimately was that she had reached a point where she had no objections. She even said that she might use the CRTC as her agent to study the question.

Senator Petten: Mr. Chairman, did she not say that she did not feel she could use the CRTC, because to all intents and purposes they had now concluded their meetings for the summer session?

The Chairman: That is not really the question, though, is it? What machinery she uses is a matter of her choice. We are not saying that she was to use the CRTC. Mind you, this is on my recollection, but I did take pains to read this morning what she had said.

Senator Austin: You have the advantage over me on that, Mr. Chairman, but my recollection is quite clear that she limited her undertaking to receiving briefs and representations with respect to the availability to advertisers.

The Chairman: If you do not think what she said goes far enough, of course, we may ask her to undertake. She will have a choice.

Senator Austin: That is one point, but if the point you are raising is what undertakings she did give us yesterday, I do not believe in any way that she gave an undertaking to hold hearings of any kind. Hearings, I take it, are defined as parties coming and making representations in the presence of other parties. I do not believe she has done that.

The Chairman: Senator Austin, we do not have to remain very long in doubt as to what she said, because we will have another meeting later today when the minister is ready to report.

Senator Walker: In fairness, Mr. Chairman, I think Senator Austin is correct on that point.

The Chairman: Well, we will read it.

Senator Lang: Mr. Chairman, would the minister, Madame Sauvé, consider re-writing a letter that was re-written?

The Chairman: That is what I intended to ask her, and she has a copy.

Then there was one item that was volunteered on the question of international relations between Canada and the United States, which we thought was an important point, but we did not feel we could develop it very much because it was beyond our terms of reference. But she responded openly.

Senator Macnaughton: Quite openly.

The Chairman: Yes. Senator Macnaughton, Senator Lang and Senator van Roggen, I think, were heartily in favour of what she proposed. Is that a correct statement?

Senator Macnaughton: That is correct.

The Chairman: Yes. Now, we have gone through the list of amendments which constitute the rock on which we are resting at the moment and we are trying to get down into an area of satisfactory compromise. Whether we will or not, I do not know. We will see what the minister has to say. Remission on two of these points would be a method, if you had any assurance that it would be followed, using section 17 of the Financial Administration Act.

Senator Macnaughton: When this afternoon is the minister coming?

The Chairman: I expect that it would not be any later than right after lunch.

Senator Macnaughton: And Madame Sauvé?

The Chairman: We have not arranged for her to come back, but we could if we thought there was anything more we wanted.

Senator Austin: What else could she say?

The Chairman: I thought she was quite impressive as a witness. There may be some points which may have to be clarified a bit.

Now, we have gone through the points of difference and we have had some evidence, but not much, indicating a desire to yield, and my concept of undertakings is that they arise out of the yielding of parties on both sides. We will have to wait and see what the minister says. I would suggest that we adjourn until two o'clock. If the minister is available earlier than that we will call you by telephone. Is that all right?

Hon. Senators: Agreed.

The committee adjourned.

The committee resumed at 3 p.m.

Senator Alan Macnaughton (*Acting Chairman*) in the Chair.

The Acting Chairman: Honourable senators, I have just spoken to the chairman, who has had to leave. I told him it had been suggested to us that the Leader of the Government, Senator Perrault, would like to make an informal report on the progress of his talks to date. He sees no reason why he should not do so, and I see no reason why he should not do so; and I am sure you agree. We can then adjourn and consider the matter over the weekend.

Senator Laird: How about next Tuesday?

The Acting Chairman: Yes. By that time we might have a result. We can consider it, and we are then on our way.

Senator Perrault: Mr. Chairman, I appreciate the opportunity to speak to the committee. I suppose I have a right to do so, as I am an *ex officio* member. I want to do so in an informal way, because I would like to share with you the dilemma facing the government on this particular point. In doing so, I am not trying to propose any specific amendment on the point of MD of Canada or its sister journals. I want to share with you this dilemma facing the government.

There is a great deal of expertise and ability here, and many of you have been forthcoming with your ideas and suggestions about how this problem can be resolved.

What we have in Bill C-58, known to many of you in exquisite detail or otherwise, is an effort to end the special privilege which, it has been felt by some, has been enjoyed by some publications in this country and some television outlets along the border. That is the first point.

On the second point, so far as *MD of Canada* is concerned this is a very worthwhile journal. The committee suggests that MD of Canada should be given an exemption from the provisions of Bill C-58—in effect, that the existing section of the Income Tax Act be left intact. I suppose that is Section 19(4), which provides: exceptions for the encouragement, promotion or development of fine arts, letters, scholarship or religion. The suggestion is that the section be left in. I have even had a number of senators come to me and say, "Well, even if all the other medical journals in the country are caught in the net, *MD of Canada* should be the exception because it has some particular literary merit."

I am not a reader of *MD of Canada*, but there is obviously some enthusiasm for it. You know, of course, that

should MD of Canada change the nature of its ownership by December 31 of this year it will qualify fully for its advertisers the tax exemption which is available to indigenous Canadian publications. I talked to Dr. Gibson yesterday and reported that to the committee this morning. I think that perhaps some of my remarks may have been misunderstood. I made my remarks to indicate that I felt an earnest effort was being made by Dr. Gibson and his associates to make this a Canadian publication. I think that is a commendable effort on their part.

It is also a fact, however, that there is resistance on the part of the two owners of the magazine. I think one of the owners testified before the committee on the idea of disposing of the magazine. There is a considerable readership, I understand, in the United States and overseas for the publication, and they are not seized with the urgency nearly as much as is Dr. Gibson.

Our dilemma as a government is simply that we have, in the general category of medical magazines, approximately four publications. In 1975, when the government expressed its intention to bring in legislation of this kind, with every indication that it would be adopted by Parliament, at least two of these magazines set out to Canadianize themselves in order to qualify for the tax exemption under the terms of the proposed legislation. Other magazines in this country have spent a great deal of money in some cases to meet what they felt were going to be the conditions under the proposed legislation. *Time* opted, in the final analysis, to close down its Canadian edition rather than to comply with the legislation. *Reader's Digest*, apparently, has been able to comply. We have other publications in other areas, such as technical journals, various consumer magazines, and so forth, which have spent a great deal of time and effort to comply.

Frankly, the dilemma facing the government is how to provide for a special exemption for a magazine that has not made the effort that many of these other magazines have to meet the terms and conditions of the legislation before us.

Since leaving this morning's meeting, I have been meeting with the two ministers. On leaving the meeting I returned to my office and conferred by telephone, and personally, with a number of people to try to achieve some way of meeting this recommendation of the committee. I have endeavoured to provide justification, even political justification, to the people of Canada as to why one publication, *MD*, should be singled out and accorded special treatment when other magazines in the very same field have endeavoured to comply with the regulations and meet the conditions of the legislation.

I spoke to Dr. Gibson last evening, and his view was that if they had a couple more years they could perhaps convince the owners to sell. The opinion I expressed to him was that if he could create a non-profit corporation by December 30 this year he could easily meet the conditions. I suggested that he could borrow money from a bank and pay off the two ladies in New York and then, as a first charge against the earnings of the magazine, pay off the bank loan.

These are the kinds of initiatives I am trying to share with you to try to indicate to the committee that we are earnestly seeking a way to accommodate the special needs that a number of senators obviously feel should be met by this legislation.

I had a long talk with the Minister of National Revenue. As a Presbyterian would say, I am speaking in the bosom of the kirk when I tell you that the minister, in reply to my request for a commitment, said, "If I gave you a commitment today that there would be a tax remittance, I would not be living up to my oath as a Privy Councillor, I am obliged to take every case on its merits and ascertain whether there is a matter of hardship involved or national interest, and I have some very narrow criteria within which I am able to operate."

Since leaving this morning's meeting, I met with the Minister of National Revenue for a total of an hour and a half. I have met with Mr. Faulkner. I have been up in Cabinet. I had a joint meeting between Mr. Faulkner and Mr. Cullen in an effort to see how both of those ministers could work together to find justification for the special treatment of *MD*—justification as to why it should be singled out in relation to *Modern Medicine*, for example, which also publishes a range of articles of interest to the same general clientele. How do you justify that?

Many members of the committee have been in public life for a good length of time. Some of you have occupied positions of high responsibility, such as Senator Smith (Colchester). How do governments cope with problems of this kind? That is the dilemma facing the government.

The government has not been intransigent with respect to this bill. As a matter of fact, you know that there have been news stories, and I have read them also, saying that somehow there was an effort by the government to steamroll the bill and that the Leader of the Government in the Senate was merely lining up votes. I have spoken with a great many of you during the past two weeks and most of you know that, starting on the morning of June 23, I have been meeting in an attempt to find ways in which these amendments can be accommodated without the bill having to go back to the House of Commons for discussion which could protract the session into the indefinite future. The discussions and meetings that I have held, not only with the chairman of the Standing Senate Committee on Banking, Trade and Commerce but with the membership of that committee, are known to you. I do not have to dwell on that point. I know the expertise which exists in this committee. I know Senator Forsey's knowledge of the Constitution and government.

Senator Forsey: But I am not a member.

Senator Perrault: I know, but you have a right to be here today. I know you are not officially a member of the committee, senator.

This is the dilemma. First of all, how do you justify giving a magazine of this kind special status? How do you convince the taxpayers of Canada that they should forego taxation from those advertisers in that magazine? How do you create legislation which will achieve that almost surgical effect in this bill? This is really why I have come here today. I am prepared to work on developing an accord on this point, and I am willing to work several days more.

A proposal, or at least an observation, was voiced today by Senator Hayden, in which he said, "Look, the broadcasting stations have been given what is, I suppose, in a sense a period of grace, from August 30, 1976 to August 30, 1977, if they write long contracts with the border stations". We have looked at this as a possible route: Should the Minister of National Revenue exercise his discretionary power and simply say that there will be a tax remission

for all advertisements in our magazines in that category until August of 1977? If we do that, what about the other magazines in other categories? What distinguishes magazines in that category? What special social merit do they confer which is not conferred by magazines on engineering, electrical delivery and so on?

Mr. Chairman, I came here today not to engage in a monologue, but really to discuss, if possible, with some of the senators their views as to: (a) should we make this special exception with all the facts known; or (b) if we decide to make the special exception, what justification can we find and how can it be achieved? The meetings with the ministers are continuing; I will probably be meeting with them again later this afternoon. As I said, the bill is designed initially to end special privilege for any magazine or television station.

Senator McIlraith: I do not think that is an accurate way of describing what is done. With respect to other corporations in other fields it is not the ownership by the shareholders that is the determining factor, so I do not think those words "special exception" are a good criterion to use in discussion. We know what they are trying to do, and I think the objectives of the bill are very well appreciated.

Senator Perrault: But good legislation should, however, be even-handed, should it not?

Senator McIlraith: Exactly.

The Acting Chairman: Gentlemen, I wonder if I could make a suggestion again, although the chairman should not speak too much. It is obvious that three ministers at least are engaged in endeavouring to find a solution. It is also obvious that we all want a solution, if humanly possible. They have not finished their talks. We have had a very interesting explanation which I think we should consider carefully.

I would like to suggest that we do not rush this thing, that we do not rush the ministers. They have other problems outside of this bill, certainly today. I would like to suggest that we, as a committee, should adjourn without further discussion and that we meet on Monday or Tuesday, whenever the chairman chooses to call a meeting.

Senator Laird: How about Tuesday at 9.30 a.m.?

The Acting Chairman: On Tuesday at 9.30, as Senator Laird suggests. By that time we could have a transcript of what the Leader of the Government has said. It is not easy. I can see their point—

Senator Perrault: Mr. Chairman, before I leave this, I would like to reiterate a point. At what point do you say a journal, which is circulated free of charge to those in the medical profession, has exceptional merit in comparison with a journal circulated to the legal profession, for example? How do governments justify those exceptions? And in this particular case, because I must tell you that it is quite a dilemma for the government.

Senator Laird: Mr. Chairman, I think your suggestion makes complete sense. Let us think it over and let us meet on Tuesday at 9.30 a.m.; and I would so move.

Senator Smith (Colchester): Mr. Chairman, as we know, *MD of Canada* is circulated free of charge. Are there any other of those magazines which the Leader of the Government mentioned which are, in fact, circulated without charge?

Senator Perrault: I think the others are without subscription, senator. There is *Médecine Moderne*, and also *Human Sexuality*. I have never seen the latter publication—

Senator Smith (Colchester): I was wondering if perhaps there is some distinction there which justifies giving a little longer time than for people who are selling their magazine to subscribers, or the persons who receive it.

Senator Perrault: That is one aspect that should be studied. We have also to meet the situation where there does not appear to have been the same effort to Canadianize the ownership of *MD of Canada* to the extent that there has in the case of some other publications in the country.

Senator Smith (Colchester): I am a little puzzled as to how anyone can be blamed for not doing something to comply with that which is not yet in fact the law. Really, I find it a little difficult to say to anyone, "Look, it is true that this law has not been passed, but you get busy and get ready for it or we will kick you out"; and then find fault with their not getting ready before the law is passed. That is what is worrying some people, and it bothers me quite a bit. I find it a little difficult to consider that these people have not done what they should to comply with that which is not yet the law.

Senator Perrault: You are saying that the compliance period should commence with the proclamation of the bill and then a period beyond that? Is that what you are saying?

Senator Smith (Colchester): I think that is what I am saying. It seems to me that you cannot fairly punish people for not complying with something which you hope will be the law when they say, "Let us wait to see if it is the law". Therefore I find it a little difficult to say to *MD* "Look you have not got yourself in a position to comply with this law yet."

Senator Davey: It is important to understand that if the legislation is passed, *MD of Canada* would still have the balance of this year to become a Canadian publication, and if it did so at any time before midnight December 31 those people who have advertised in this country would be protected.

Senator Perrault: They get the full tax exemption for 1976 if they qualify as Canadian by December 31 of this year; yes, that is correct.

Senator Buckwold: Before we adjourn, perhaps to give the Leader of the Government a little guidance, I do not think that most of us—I can only speak for myself. I could never be a supporter of a complete exemption for *MD*. We would be creating another *Time*, *Life* exemption. I think the discussion this morning revolved around an extension of the time. I do not see why that is so difficult. In your discussion so far, you have talked about the efforts made by those who have complied with the regulations. As Senator Smith (Colchester) has pointed out, the matter of retroactivity creates some problem. I do not know whether it would be that difficult to extend it by even a few months, making it effective in respect of all publications as of the end of this year. That would not do very much to hurt anyone. I do not see that such a step would create any great problems.

Senator Perrault: I think it can be done.

Senator Buckwold: That is what the Senate is asking for right now.

Senator Perrault: In negotiating this matter, I am wearing two hats. I am trying to be constructive wearing both. How do you justify that in relation to the position taken with respect to many other honoured and valuable periodicals which have complied with the proposed legislation and have done so with more enthusiasm than the *MD*?

Senator Lang: That is very easy to justify, because we would not be exempting *MD*. We would be exempting magazines dealing with cultural, educational, or fine arts matters.

Senator Perrault: So, we are saying that this advances the state of mankind in Canada?

Senator Lang: Yes, and motherhood. I think it is very easy to draw a distinction between *MD* and the other magazines mentioned, because those others do not fall within the category of cultural, educational, or fine arts. We are not dealing with *MD* as one specific magazine, but any magazine that might now be publishing that falls within that category, and there are only four of them. I think it can be done and I think the public will accept it.

Senator Cook: Mr. Chairman, I think your suggestion that we should adjourn is a good one. I want to say that I am very favourably impressed with the obvious desire on the part of the ministers to meet the views of the committee.

Supplemental to what Senator Lang has said, would you perhaps consider the feasibility of the giving of an undertaking, when the legislation dealing with the definition of "substantially the same" is introduced in the next session, that included in that legislation could be provision for a transitional period of two years?

If that undertaking could be given, I am sure that would satisfy the committee. Realizing the difficulties involved, we are not insisting that *MD* be exempted, but that *MD*, along with a very limited class of similar magazines, be given, by way of amending legislation, two years in which to qualify.

The Acting Chairman: Honourable senators, there is a motion before the committee.

Senator Walker: There is, Mr. Chairman, but I think this has been a very helpful discussion. It has helped us clarify our thinking. With your permission, Mr. Chairman, I would like to ask the government leader whether he can give us any idea of what extension he feels can be given. We should also keep in mind that *MD* is the only magazine that made any representations to us in this regard. Am I not correct in that?

Senator Perrault: The others were in the process of complying.

Senator Walker: That being so, they do not need to worry. What have you in mind as to the possible extension that you might be able to obtain after discussing this problem with the ministers?

Senator Perrault: As far as the extension period is concerned, it was Senator Hayden today who made the point that perhaps there should be consistency between the broadcast part of the bill and the publishing part. Direct parallels do not exist between the two, but it is the intention that the border broadcasters, if they sign yearly con-

tracts, will have one full year of broadcast advertising time from the day of the proclamation of the broadcast part of the bill.

Senator Walker: That is from September 1, then, on?

Senator Perrault: That is right. So, if that were established in this area, that would bring it to the fall of 1977. I hasten to say, the government has not made a decision on this matter as yet, but at least it would be consistent with the broadcast part of the bill.

Senator McIlraith: Mr. Chairman, we have a motion to adjourn, and I think it is perhaps getting to the point at which this is not necessarily helpful in the negotiations which are going on and the best thing to do would be to adjourn until the beginning of the week. I noticed the form of the motion was for Tuesday evening at 9.30. That presupposes the Senate reconvening on Tuesday. I would hope that you would word the motion in such a form that in the event that we are summoned back earlier to terminate the session this meeting would be held at the appropriate time.

Senator Laird: We could eliminate the 9.30 on Tuesday morning and leave it to the chair.

The Acting Chairman: To convene at the call of the chair.

Senator McIlraith: A very important vote will take place in the House of Commons tonight.

Senator Laird: I will amend the motion—to reconvene at the call of the chair.

The Acting Chairman: I think we should hear from Senator Davey.

Senator Davey: Just before we adjourn, I apologize for taking just a few moments. Senators should be clear that under section 19(4) five publications are involved. The first is *MD of Canada* which we have been discussing; the next are *Modern Medicine of Canada* and *Médecine Moderne*. Those two publications are presently under process of becoming Canadian publications under the terms of this legislation. The fourth publication is the *Christian Science Monitor*, which is not going to comply with the legislation but will continue to circulate its newspaper in Canada, no longer soliciting advertising in Canada. The fifth publication, *Human Sexuality*, is Canadian-owned—I believe by Southam. Its content is foreign and it is apparently having a difficult time, even as it is, making a go of it and, apparently, it intends to cease publication. So, while Senator Lang refers to exempting all publications in that particular category, we should be aware that those are the five and, really, if we exempt one we should consider the disposition of the other four at the present time.

The Acting Chairman: Those in favour of the motion to adjourn? Those against?

Carried.

The committee adjourned.

Ottawa, Wednesday, July 14, 1976

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-58, to amend the

Income Tax Act, met this day, *in camera*, at 9.30 a.m. to give consideration to the bill.

Senator Salter A. Hayden (*Chairman*) in the Chair.

The Chairman: Honourable senators, we are here this morning to consider the question of making a further report, since the original report was referred back to the Committee for reconsideration and report.

As you know, we heard three witnesses, and arising out of that the Secretary of State was going to come back after consulting his colleague, the Minister of National Revenue, on two points that we put forward by way of compromise, trying to find a common ground. The first of those two points was how the remission under section 17 of the Financial Administration Act might work.

Senator Molson: Remission of what? Remission how?

The Chairman: It is remission of tax. This would be to the advertiser for a period. Under the Financial Administration Act there is provision whereby, on the recommendation of the Minister of National Revenue to the Treasury Board, the Treasury Board may, in a proper case, if hardship or the national interest has been demonstrated, recommend the remission, to the Governor in Council, and the Governor in Council passes an order in council. It is a section which has been invoked from time to time in various circumstances.

Senator Molson: Does this suggest that the advertising company is not permitted to deduct the advertising sum as an expense for tax purposes, but then has to apply for a remission at a later stage?

The Chairman: Yes, when the liability arises.

Senator Molson: The liability arises immediately; he is not permitted to deduct an expense which he has already incurred.

The Chairman: What I meant was that he becomes liable when he is assessed, and that is when, in law, he has the liability.

Senator Molson: Is this suggested as an alternative to what is proposed?

The Chairman: It was suggested that the minister consider this as an alternative to our proposal for elimination of the retroactive feature. That was on remission.

Senator Beaubien: If somebody advertises in a magazine and it is deemed not to be a business expense, do you mean to say the company can then go and ask the Minister of Finance if he can have a refund?

The Chairman: No. There is something in there that spoils your question. You say it is not a business expense. This bill and section 19, as it was in 1965, do not say it is not a business expense. It just says that it is not deductible from the income before the tax is calculated.

The other point was as to the class of magazine that is represented by *MD of Canada*. The minister was to confer and see whether, for a limited period of time, the exemption could be continued, either for a period to permit an effort at compliance or a period to permit *Time* to move out. While he undertook to discuss this with his colleagues, I have not heard from the minister. I do know that he has been in touch with the government leader because I have spent some time with the government leader. I received

notice of this around 7 o'clock last night. I received a letter, dated July 13, from the Secretary of State, delivered by hand. He makes no reference to what he had said he would do before he left the meeting last Thursday morning. I will now read the letter to you. He does, as you will see, in one aspect, refer to the question of remission. The letter reads:

First of all, I want to thank you, as Chairman, and the other members of the Senate Banking, Trade & Commerce Committee for your diligent examination of Bill-58.

I want to assure you that I have studied carefully the contents and recommendations contained in the report. It is gratifying to note that the Committee supports the objectives of the Bill. I share with you a hope that the legislation will achieve its objectives and the result will be further development and growth of healthy, indigenous Canadian broadcasting and publishing industries.

In this regard, because of the great interest of you and your Committee in the objectives of the Bill, I would be pleased to meet with the Committee next session to provide a status report on the effect of the legislation on meeting our objectives in the periodicals and broadcasting industries.

As well, I would welcome from you and the Committee, and from other members of the Senate, suggestions which from time to time you may wish to make with respect to Canada's cultural industries for which I have some responsibility.

With respect to the proposed legislation, I know we share a desire to make it the means by which the goals we hold in common may be achieved.

It has been my determination from the outset to produce a measure which will be fair and even-handed in its application. In this regard, I am well aware that the status of certain periodicals under the present section 19, subsection 4 of the Income Tax Act—

That is, a magazine of the type of *MD of Canada*.

... has been of concern to certain members of the Committee.

Certainly, arising out of application of the Act, should evidence be placed before me that would warrant consideration of remission of taxes under the Financial Administration Act on behalf of advertiser/tax payers in these publications, that information will be transmitted to my colleague, the Minister of National Revenue. I am sure, however, you understand that within the terms of my Ministerial responsibility, I could not go beyond this commitment.

The recourse is open to any tax payer to place before the Minister of National Revenue evidence that would warrant consideration of a remission of taxes under the Financial Administration Act. As you know, under Section 17 of the Act, aggrieved tax payers may seek such remission from the Minister of National Revenue. Although the interpretation of the Act by the Treasury Board has been quite narrow, the recourse still remains available.

I have enjoyed meeting with your Committee and, despite certain differences of opinion which have occurred from time to time—a feature of Parliamentary democracy—I want you to know how useful the Committee's work has been to me and my colleagues.

It is signed, "J. Hugh Faulkner."

I will have copies made of this in due course. It was not practicable to do so last night.

There is no reference to the consultation which he was going to have with his colleague, and you may form your own judgment as to what you think about lack of courtesy, but there it is. I do not think it should influence us in the decision we are going to make today. We have to make our decision without any further information from him, other than what is contained in his letter.

The purpose of meeting this morning is to consider the further report, if any, this committee should make to the Senate, under the approved motion of the Senate referring the original report back to the committee for further consideration and report.

The two ministers, Madame Sauvé and Mr. Cullen, have both appeared before us. I would say they conducted themselves like reasonable, co-operative people, trying to seek an answer to the apparent differences in the report as against government policy. In all, the summation of their statements contained three undertakings. Those three undertakings related, one, to the determination of the date which would be proclaimed as the date on which the broadcast provisions come into force. The second had to do with the provision in relation to how the needs of the advertising public had been adequately satisfied by the broadcasting stations. Those were the subject matter of two amendments contained in our report. The third item was that when Mr. Cullen was here he undertook that at the next session of Parliament he would introduce a bill defining "substantially the same." He also indicated that "substantially the same" would be defined to include the requirement of content difference of 80 per cent as against an issue published outside of Canada at that time.

Madame Sauvé then went on to deal with the question of international relations. She expended on that in the course of her evidence and indicated that she was prepared and, indeed, said she was very much concerned and involved with the question of international relations in the field of broadcasting. She was prepared to appoint a committee or a body of persons who would deal with this problem and this phase with the United States. She did indicate that the committee which presently exists, whose objective was the question of commercial deletion, is already sitting and having meetings, and she did not believe that that committee, with its particular purpose, would be the committee which would be most useful for this purpose.

Senator Walker: She did or did not believe? She did not believe it would be?

The Chairman: She did believe that another committee was necessary, and she would support it.

Senator Walker: Thank you; a separate committee.

The Chairman: She said she also was interested in good Canada-U.S. relations in the field of broadcasting.

It seems to me that our job at this time is to make an assessment of how we can get together on what could be regarded as common ground as between the government view and policy and the particular amendments in the committee report.

We will deal, first of all, with Mr. Cullen's contribution. Our report disapproved of the exercise of ministerial discretion for the interpretation of these words. We proposed

an amendment under which the minister in the circumstances would be obliged to refer the matter of interpretation to the court. The idea behind that was to get away from ministerial discretion. What the Honourable Mr. Cullen has suggested is that he will introduce a bill in Parliament at the next session to define "substantially the same" in terms of the content difference of 80 per cent as between the issue in Canada and the issue elsewhere.

It strikes me that it could be concluded, without stretching your imagination at all that, there is a common objective running through his plan and our plan as to what we want to accomplish. I have no vanity in this regard, nor am I wedded to a particular way of accomplishing the result. It does appear to me that accepting the minister's way, Parliament is left in a stronger position than it would be by going to court.

Senator Walker: And it would be faster.

The Chairman: Yes. If you go to court to make a determination, the decision is based on the evidence adduced in a particular case, and it has no general application. It does not establish any jurisprudence, except where you have the issue of a magazine in Canada and compare it with the issue in the United States and you can note the differences; and you may not get another case of that kind because the contents may vary.

But under the minister's proposal the matter of the contents and the 80 per cent would be part of the substance of the debate in the Commons, and they would have to examine whether 80 per cent is a proper measure or whether it should be 70 per cent or 90 per cent. Then, when the bill comes to the Senate, the Senate can address itself to the question of the 80 per cent. That is a much stronger position, I think, for dealing with the 80 per cent than we have had to date, because the 80 per cent was not in the bill. It was an interpretation that the minister made and, except for a taxpayer receiving an assessment, there was no way that you could get at or question the 80 per cent content difference.

My personal view is that we could very well not insist on our amendment on that point, but could accept the undertaking of the minister.

In the draft of a report, I have on that point taken quotations from what the minister said and have made them part of the observations in the report indicating his language, that he undertakes to do this.

Then, on the second point, on the question of the proclamation, which would declare the date on which the broadcast provisions would come into force, Madame Sauvé also gave an undertaking. We were concerned in that regard about the opportunities we felt should be given to the advertisers to present their case before the decision to proclaim is made, and we were concerned because the Secretary of State had stated to Parliament, to the House of Commons in January of 1975, on this very point, that the proclamation would not come into effect until such time as the needs of the advertising industry had been adequately satisfied by the broadcasting stations. It was pointed out to Madame Sauvé in that regard that a proclamation to bring into force the provisions of the broadcasting sections of the bill would apply to all stations. The discussion before that seemed to centre around Vancouver—that is, that Vancouver would have a new station most likely in operation at the beginning of September; but there was also Toronto, and the problem in Toronto would appear to be the matter of available prime time. So we

asked her who was going to make the determination, and she said she would make the determination; and then we asked her if she would have a hearing, a public hearing, and she said, no, because that would present too much delay. But when it was suggested that she should have the hearing herself and that the people interested could present briefs and make representations and that only after all that was done would she arrive at a determination, she said that if it appeared from the representations and briefs, and the undertaking of the Secretary of State, that the needs of the advertising industry must be satisfied before the proclamation is made, she would implement that undertaking and she would not proclaim unless she was satisfied that the needs had been satisfied in terms of this statement by the Secretary of State.

If you recall the amendment that we proposed, we were concerned about the same thing, about how the determination was to be made, and we had suggested that it would be made by having a motion introduced in the Commons fixing the date for proclamation, and that when that motion was approved by the Commons it must be concurred in by the Senate. Again it appears to me, but this is only my view, that in both cases the objectives appear to be the same, that is, what is a proper and desirable method for arriving at a determination as to whether the needs of the advertising industry are properly served. Again I say I have no vanity as to the particular form we use so long as the form is acceptable to us, and when we have an undertaking of the minister I think it is tantamount to an undertaking of the government. Certainly, I was quite impressed by Madame Sauvé and the sincerity of her statement.

So, again, what I am proposing, as a way out of the problem we have in trying to resolve the differences between our report and the government's viewpoint on policy, is that we accept the minister's undertaking on this point and do not insist on our amendment.

That deals with two points, but, if you remember, there were four amendments we proposed. The other statement that Madame Sauvé made was on the question of international relations. I know that in the Senate there were many speeches on the question of the disturbance of good relations with the United States that might be, or would be, provoked by a bill like C-58, containing the kind of terms it does, and particularly in the light of the way it deals with border stations and broadcasting. That was the subject matter of debate on second reading, again in committee, and also during the debate on the motion to adopt the report.

Madame Sauvé undertook to establish a committee. She did not think it was desirable to use the existing committee, which is dealing with commercial deletion. She thought that was a separate matter, having its own formula, and separate representation from the United States and from Canada. She felt that the function of such a committee could not be lumped together with another committee that would be dealing with broadcasting problems generally as between Canada and the United States. In that connection, as you know, Mr. Boyle indicated to us that these problems in broadcasting are going to develop rapidly into much more complicated problems than the ones we have now. The minister readily agreed that the need for this type of committee existed, and she undertook that she would assist in establishing such a committee for that purpose. She indicated, in answer to a question asked by Senator Lang, that he was free to indicate what his

view was, as was any person who was dealing with the United States authorities in this field of discussion, such as the parliamentary group. What I have done in connection with that is to take exact quotations from what she said, and use them as a basis for this report. I have indicated in the draft that we are satisfied with her position in this matter, with her interest in good international relations in the field of broadcasting, and with the method that she proposes for dealing with it.

Those are the pluses, and I must say, as one person, that my view of these two ministers as witnesses is that they were fully appreciative of what we were attempting to accomplish, if we could resolve the problems and the differences. I felt that they gave intelligent consideration to problems and that they were co-operative.

Now, however, we come to the next problem, which concerns two amendments. I have not dealt with these in the draft that I have. The first deals with the magazine *MD of Canada*, and proposes that the exemption this magazine enjoyed under the heading of fine arts, letters and scholarship, should be continued. The bill itself proposed to repeal that provision. The proposition we put to the Secretary of State was that the repeal of this provision should be effected only on proclamation, and that there should be a date before which it would not be proclaimed. Alternatively, we suggested to the Secretary of State that the remission should be supported in some way under the Financial Administration Act for the purpose of accomplishing that. Those were the things he was to take away with him and talk to his colleague about.

The other amendment concerned retroactivity, and we suggested changing the date of coming into force with regard to magazines, et cetera, from January 1, 1976, to January 1, 1977. When the minister was here we supported the need for change by saying that under the broadcast provisions the advertising people, if they had a contract that was entered into before the date of proclamation bringing into force the broadcast sections, would have one year of exemption; in other words, their advertising costs would be deductible for one year, and we saw no reason for the difference as between the two classes of operation, namely, the periodicals and broadcasting. Mr. Faulkner undertook to discuss that with his colleague, but the only answer I have had has been the letter I read to you this morning.

It is true that I had quite a session with the Government Leader yesterday, and on a number of occasions earlier on Tuesday, and I must say that he has been working very hard with a view to resolving these problems, if they can be resolved, in the interests of arriving at a bill that might leave the Senate without amendment. He is the Government Leader, but I would say that he has really pursued this matter quite earnestly. On the other hand, I also feel that he ran into exactly the same kind of stone wall that we did so far as the Secretary of State was concerned. You can see from his letter that there is hardly anything you would consider to be an indication of yielding, and in those circumstances the question is, what do we do?

My own suggestion is that we should assess the importance of the concessions that we have, as against what we must conclude the Secretary of State is not prepared to do. Again, personally—and of course each member of the committee will have to make this decision for himself—I would regard the concessions, the undertakings, which have been made as being very important and very valuable, from the point of view of the Senate. I would rate

them in the following order. I would rate the undertaking of the Minister of National Revenue, to bring in a bill defining "substantially the same", as being the most important of all the provisions that we were considering, because it does give the Senate a run at the 80 per cent content difference, and this may turn out to be a very valuable concession. After all, who knows what the atmosphere will be by the time this bill comes up in the next session of Parliament? One can speculate, and one can even make informed guesses as to what is going to be the course taken by the broadcasting and magazine operations, but how much, if at all, will they be helped or contributed to by the objectives of Bill C-58? I would therefore rate Mr. Cullen's undertaking as being the major point in our report, which we are now proposing to review.

I would rate the undertaking by Madame Sauvé, the Minister of Communications, on the manner of determining that the needs of the advertising industry had been adequately satisfied, as being a very important concession. And if the broadcasting stations and/or the advertisers have a case that they can make out, then they have to make it out before her.

Now, as far as our amendment on that score was concerned, we turned it over to Parliament to make the decision. There is one difficulty in that because, if a proclamation is to be made at a time when Parliament is not sitting, there is no effective way by which the determination can be made. So, by putting it in the hands of the responsible minister, at least as far as I personally am concerned, I think it is an important concession, and I would be prepared—and this is only my own view—to yield on the question of the amendment we proposed.

We did get an extra which we regarded as being very important in committee, and that is in the field of international relations. I know that Senator Macnaughton and Senator Lang, in particular, did express themselves very clearly and very forcibly when the Minister of Communications was before us, as did some other honourable senators, on the importance of this question, and how helpful it would be in our international relations. At least, we are showing that we are providing a vehicle or a means whereby discussion can take place, which indicates an element of goodwill and an element of desire to be neighbourly within the limits of our own position in Canada domestically. So the way I would assess it is this. I would rate those undertakings as being much more important than the case of *MD* in the matter of retroactivity.

I should say a word on that. If you apply remission, you must show hardship or national interest. We do know, from the evidence we have had, that the advertisers in *Time* who continued to advertise received a special rate, and that special rate was two-thirds off the going rate. The purpose of that was to reimburse them for the non-deductibility of the advertising cost. We also know that some of the advertisers also received a guarantee from *Time* to protect them from loss. So one wonders, in those circumstances and since it is the advertiser who would have to apply for the remission, how successful they could be in trying to establish hardship in those circumstances, and I think this is a factor. We were proposing that to the Secretary of State as an alternative method to the changing the date of coming into force of the print provisions, and in the circumstances my personal view is that I would be prepared to give up the change of coming into force date for the concessions and undertakings received on the other points.

Now, honourable senators, on the question of *MD* we find that this presents some problems. It is a small operation and the magazine is distributed free of charge, and it carries Canadian advertising. We do not have any evidence as to whether in the year 1976 the advertisers got special rates or not. There was no evidence developed on that point, although we could quite easily find out. But the question is as to how you assess the importance of *MD* as against the other principles contained in the undertakings we have received and against the interests of having the bill pass into law, since we did not erode the essential purposes of the bill in any particular, and since in fact in our report we approved of the purposes of the bill. Then, what is the alternative? The alternative is that we report that we are not prepared to make any change in the original report. As a result of that, speaking very frankly and counting heads in the Senate, I would conclude that if you had a vote today the Senate report would be unlikely to be approved. One never knows, but that is a personal view. That would mean that the bill would go forward without these provisions that are contained in the undertakings we have received. But the subject matter of those and the objectives of the undertakings are objectives that this committee had, and it provided a way which we thought would effectively deal with them, but this way proposed in the undertakings will also effectively deal with them, and in some particulars will enable us to deal better with them.

So far as the report is concerned, honourable senators, I have drafted a report only covering the three undertakings and the amendments which we proposed in respect of two of the subject matters, and also on the question of international relations. I have not dealt with the other two items as yet because I was waiting to hear and, indeed, expecting we would hear something further other than this letter. But I do not think that that is likely now. So I think we have to make a decision on *MD* and the retroactivity element in the light of the facts as we now see them. We cannot take advantage, as I see it, of the undertakings and not have to face the results of staking our position on *MD* on the question of retroactivity, but as I indicated to you, in my assessment of those two subjects, when you compare them with the undertakings made and the importance of them, you may have to think in terms of giving up on those two amendments in order to gain what is the real issue and real concern of this committee, and, I think, of the people affected by the bill.

The draft I have made is about 12 letter-size pages. To deal with the other two subject matters it might take another couple of pages, and I have not had the time to have copies reproduced, but I propose to have these copied, and I would hope that whatever report we are going to make we would make sometime today—perhaps this evening, if the Senate is sitting, which I think it may be, or tomorrow morning. But I do think we should make the report. I do not think we should sit back and lock the reference back to us in this committee and just let the lapse of time take care of the situation. I think that is highly undesirable and I would not want to be party to it. We have been given a job to do by the Senate, to give further consideration and report back again, and I think within the limits of our power and the time we have available, we should do that.

I could read all this, but I will tell you how it is made up. It consists of quotations from Madame Sauvé's remarks on the two subjects of the proclamation and international relations.

Senator Molson: Mr. Chairman, could you just read the quotations and tell us the general format? Those parts are the meat of it.

The Chairman: I will take Madame Sauvé's remarks first. I say:

The first Minister to appear before the Committee was the Minister of Communications, the Honourable Jeanne Sauvé. It should be noted in this connection that on January 23, 1975, the Secretary of State of Canada made a statement to the House of Commons in part in respect of the broadcasting provisions of C-58, in which he referred to the amendments of Section 19 of the Income Tax Act in their application to broadcasting, as follows:

no deduction against income be permitted for advertising time on a non-Canadian broadcasting station for an advertisement directed primarily to a market in Canada. Such an amendment would not, of course, come into effect until sufficient advertising time is available on Canadian stations to satisfy Canadian needs adequately."

One of the amendments contained in the said report . . .

That is, in our original report.

. . . dealt with procedure for such determination by Parliament, but such provision appears restrictive in its application if Parliament is not in session. The Minister on this point stated as follows:

THE CHAIRMAN: "In lieu of that (going back to the House), it is up to you, as the Minister, to make the determination that the conditions existing in the advertising industry, as Mr. Faulkner mentioned on January 23, 1975, are such that it can be said that the needs of the advertising public are adequately satisfied.

HON. MRS. SAUVÉ: Yes.

THE CHAIRMAN: I take it this is a decision you will make.

HON. MRS. SAUVÉ: Yes."

THE CHAIRMAN: "... What we are suggesting, in the event that you do it yourself, is that there be opportunity for the stations affected to appear and present their case, with time limits on their appearance, so that they will not run into September 1.

September 1 is the date they expect the Vancouver station to be open for business.

HON. MRS. SAUVÉ: I think I could meet that requirement. I am sure that I could receive representations from interested parties, who would flag me if there were any problems with regard to the date of proclamation that I intend to set. I think it would be difficult for me to take on a commitment to ask the CRTC, for instance, to do that for me, which would involve, I suppose, having public hearings on the matter. I think that would be quite a lengthy process . . .

HON. MRS. SAUVÉ: "... I think, however, that Senators would perhaps be satisfied, if I accepted briefs or representations from interested parties in order to ensure that broadcasting time would be available in Toronto and in Vancouver. I do not think Vancouver will be a problem. Toronto might, in the estimation of some, pose a problem, but I would certainly be willing to receive representations on that.

THE CHAIRMAN: Of course, the proclamation would bring the broadcast sections into force, applying to all the border stations in Canada, so that Toronto becomes, in that regard, just as important as Vancouver, even though Vancouver has a new station coming in.

HON. MRS. SAUVÉ: Yes.

THE CHAIRMAN: So when you make the law applicable to broadcasting you must cover it and rule in connection with all the areas.

HON. MRS. SAUVÉ: Yes.

THE CHAIRMAN: I do not see any objection that could possibly be made to your making that inquiry yourself.

HON. MRS. SAUVÉ: I could do that.

THE CHAIRMAN: And it could be informal. The main thing is that the condition which Mr. Faulkner set out in his speech of January 23, 1975, was that it would not be proclaimed until the needs of the advertising public were adequately served, and that means in any of the communities that are affected.

HON. MRS. SAUVÉ: I certainly stand by the commitment that Mr. Faulkner made about the Bill. I think we will ensure that there is broadcasting time available for those advertisers who need it."

SENATOR LANG: "... I was not clear, Madame Minister, whether in your remarks concerning the proclamation date of the broadcasting provisions you were prepared to hold public hearings into the matter.

HON. MRS. SAUVÉ: No; I said that would be too difficult. I said I would be prepared to receive representations and briefs from the interested parties before I decided on a proclamation date, and that would be in order to ensure the conditions set by Mr. Faulkner whereby there would be some available advertising time on the Canadian broadcasting outlets."

SENATOR LANG: "... It is not because of Vancouver that this question arises, but because of the situation in the Toronto area. The Committee also felt that tying the proclamation date solely to the start-up date of the Vancouver station overlooked the Toronto problem which would, of course, be affected by the bill."

HON. MRS. SAUVÉ: "I would not disregard it. If it were demonstrated by the different representations that it got that there was no available time on the Canadian stations, then I would have to think about what would be the proper proclamation date. I would certainly not disregard the representations when I received them. You see, there is a difference of opinion as to whether there is some time available . . . So far as Vancouver is concerned, you were right. We would deal with that and the question there would be answered when the new station came on stream. We felt that that was sufficient to provide the advertisers with the space they needed. In the Toronto area you have no new station coming on stream, but I think that one of my officials gave you a breakdown of the time that was available, but he felt that the broadcasters would have the service that they need. Here again I cannot accept a public hearing, and I explained a while ago why I thought that was very difficult to do, but I would certainly accept representations. If the representations indicated to me that there is not enough available time on the Canadian stations, I would certainly take

that into account in deciding the proclamation date; and, as I said, I would not disregard the representations.

Then Senator Lang raised the question of what she meant by "time available", which is not completely in point.

Those are the quotes. Then I go on to say:

The Minister of Communications in her statements to the Committee quoted above has dealt with the problems of implementing the statement of the Secretary of State of Canada made in the House of Commons on January 23, 1975, in which the conditions required to be met before any determination of the date to be fixed by proclamation is settled for the coming into force of the Broadcast Section of C-58. Her agreement and statement on this point are:

a) that she will implement the conditions laid down by the Secretary of State of Canada for the necessary determination that "sufficient advertising time is available on Canadian stations to satisfy Canadian needs adequately", and

b) to that end she will receive representations and briefs from the interested parties before any such determination is made by her.

This statement of the Minister deals with the problem that the Committee wished to have resolved before any proclamation was made, providing for the coming into force of the Broadcasting Sections of C-58.

Accordingly, the Committee is prepared to accept this statement of the Minister, and therefore does not now insist on the amendment proposed in the report on that point.

That is the way we deal with the question of proclamation—I should not say "we"—that is the way in which I have drafted it.

Senator Laird: Mr. Chairman, presumably you are interested in our views.

The Chairman: Yes.

Senator Laird: Since I spoke out, you may recall, rather vigorously against this bill, particularly emphasizing the international aspect, it may also interest you to know that, without having had the benefit of your detailed views, as I have had this morning, and completely independent of any discussion of that kind with anyone, I, on my own and anticipating the approximate answer we would receive from the Honourable Hugh Faulkner, arrived at precisely the same conclusions at which you apparently have arrived. That is, that we have really received such substantial concession, particularly the one you mentioned from the Honourable Bud Cullen, that while I am reluctant to abandon publications such as *MD of Canada*, really under the circumstances I do not see any choice, when we are operating in a democracy, other than to compromise, as is done all the time around this place. That is my personal view. I thought I would get that across at least, for what it is worth, as one member of the committee.

The Chairman: Would you like to hear part of the international aspect? It is only two pages long.

Senator Laird: We have all heard it. Senator Molson may not have heard it.

Senator Beaubien: Mr. Chairman, before we pass on to a further report from this committee, I think we should have it in our hands so that we can read it. You have a further report which you want to submit to the Senate. Before we pass it, I think we should have it in our hands so that we can read it.

Senator Laird: Yes.

The Chairman: Yes, but later today. It is in draft form. It is not even finished. I need instructions on two points.

Senator Beaubien: Mr. Chairman, speaking for myself, we have before us four points. The first is the effective date of the cancellation that *Time* and *Reader's Digest* had, the advantage they had under the old bill. The bill suggests January 31 this year, and we suggested a delay of one year. Why do we not settle on six months? If people have to go and beg some money back because they have been assessed on this or that, it is a terrible complication. Everyone knows now—and certainly in the last month or so they have known perfectly well—that this thing is coming. If we take June 30, 1976 as the effective date, it seems to me that it is a reasonable compromise all around.

If the minister does not wish to put it through now, but wants to give us an undertaking that that effective date will be retroactive, I think we should accept it.

On the second point, "not substantially the same," I think your solution, Mr. Chairman, is wonderful. It makes great sense. It has to be in the legislation, and in this way it will be in. I would be perfectly satisfied with Madame Sauvé's broadcasting effective date. It seems to me that she has this in hand. It is a most complicated issue. I think the Americans, when they are dealing with us, are just as rough. I am perfectly satisfied with that.

The fourth point is *MD of Canada* Surely, they should give us some concessions there. *MD of Canada* is a very valuable publication. It is given away. We cannot pretend that it is something that is taking money away from our publishing industry. I would think that we should insist on a concession.

The Chairman: You understand the risk?

Senator McIlraith: Mr. Chairman, there are four points here. So far as Madame Sauvé and the broadcasting part of the bill is concerned, she has certainly adequately met our requirements, because it is clear that Parliament will not be sitting in September when she normally might hope to proclaim the bill. She has also given us quite a good plus. I thought her evidence on the international relations aspect was a pure plus for us. It was not really in our terms of reference.

So far as Mr. Cullen is concerned and the matters within his jurisdiction, our earlier report, in essence, required that the interpretation of "note substantially the same" be made by the courts rather than by ministerial discretion—without authority, I might add.

He has suggested, for rather good reasons, that we proceed by way of parliamentary action. We had said, in some of the general lines of our report, that there were only two methods: parliamentary action or the courts. He has given us completely what we asked for. At least, that is the way I interpret his undertaking.

There remain two points. As to retroactivity, which I still thoroughly dislike, it arises in only two cases. In the *Time* case, our evidence is that advertisers are protected,

if any are caught, by the arrangement with *Time* magazine, in the reduction of their rates, as a guarantee against loss.

It leaves only the *MD* advertisers. I felt that the language of Mr. Cullen was very good, bearing in mind section 17 on remission. I thought he went as far as he could possibly be expected to go, as the minister responsible, in indicating his willingness to submit applications to the board.

I am not supporting Mr. Faulkner's conduct at the moment, but his letter was interesting. In it he makes some rather good references to the remission section of the Financial Administration Act. Therefore, I am quite prepared, having obtained the two main points that were of real parliamentary significance, to forget about anything further on the retroactivity aspect.

An interesting point is that there is another element in the letter which is purely gratuitous, which rather surprised me, and also pleased me a little. That is his reference—I have forgotten the language, Mr. Chairman; in any event, to give us an accounting of the results. That, it seems to me, is a rather helpful gesture.

That leaves outstanding one narrow point, and one only: *MD of Canada*. I do not like giving up on it, but I am quite prepared to do so, in view of the fact that we have obtained our main principle that Parliament and not ministerial discretion will determine what is the law.

I think it would be foolish, for the sake of a small point, to jeopardize the principle that we are getting enshrined in our practice, that Parliament makes the decisions as to what is the law, and not ministerial discretion.

I would, with reluctance, give up on *MD* and, so far as I am concerned, would ask you, Mr. Chairman, to complete the draft of the report within the time frame you can, as quickly as possible, and then close the matter quickly.

Senator Macnaughton: Mr. Chairman, the original objective of this committee was to improve the bill. We have received undertakings on at least 75 per cent of what we wanted, and I would even say 90 per cent, if we give a liberal interpretation.

Senator Lang: Make it 80 per cent!

Senator Macnaughton: Half a loaf is better than no loaf at all. I think we can retreat with honour. I think we have done our job. I suggest that we report and pass the bill.

The Chairman: Are there any further comments?

Senator Molson: Mr. Chairman, I am not completely happy with what is suggested. I think the pragmatic approach has to be acknowledged and faced. As I see it, this committee has basically dealt with principles, and there were only two in these various suggested amendments. If we are going to back away from the principles, I think it should be made very clear why we are doing so.

I would like to have it said that in dealing with this legislation the committee found that certain principles to which it alluded were being violated, or not observed, and therefore it suggested amendments; that since that time, in discussion with the ministers concerned, there have been certain undertakings, and the committee is satisfied to withdraw its amendments provided those principles are observed, even if the method is different. In this case the method is by an undertaking on the part of a Minister, which we accepted as a Government undertaking. Having

achieved that, we are therefore prepared to go along with it.

We do not very often get favourable publicity, but at least on this occasion our report was described in the press as the Senate striking a blow for principle, which I think was pleasant and surprising. I believe that for us to back away without making abundantly clear why we are doing so would be a very great mistake. That is my only reservation.

Senator Walker: I understand you are going to put that in your report, are you not, Mr. Chairman?

The Chairman: That is in relation to those two points, *MD of Canada* and retroactivity.

Senator Walker: And the overall picture?

The Chairman: Yes. My big problem on retroactivity is, who has been hurt, if anybody.

Senator McIlraith: Nobody.

The Chairman: I do not know how much of a principle you are wrestling with if the people you are trying to help have not suffered hardship.

Senator Molson: I think the compromise is a poor substitute, but I guess it is the only possible one at this stage.

The Chairman: That is giving something which, in the circumstances, might be meaningless.

Senator Molson: Perhaps we should not over-emphasize it.

The Chairman: I am surprised that the minister did not yield on that.

Senator Walker: Isn't remission available anyway?

The Chairman: Yes, it is available without any undertaking.

Senator Walker: I think the point is well taken.

The Chairman: If you read between the lines of Mr. Faulkner's letter, with regard to the interest he will take in that subject, he might bend instead of standing up straight.

Senator Flynn: He did not show too much inclination to do that.

Senator Molson: It is an unusual letter.

The Chairman: Yes, it is; that is why I think it should be attached to the report.

Senator Walker: He will bend when he is dumped next month.

Senator Austin: Many of the remarks I might have made have been overtaken by the comments of Senators Molson, McIlraith and Macnaughton, and your own comments on Mr. Faulkner's letter. I am happier to note that the committee is aware that not much is held out by Mr. Faulkner with respect to section 17. I do not have the letter before me, but the sentence referring to the Treasury Board's narrow interpretation of its applicability will, I am sure, continue to be operative. However, I do understand that reference in Mr. Faulkner's letter to mean that if some advertisers suffered an undue hardship, some unexpected or unapprehended circumstance which

caused a hardship, it will be considered. In other words, the door is not closed, although it is not open very far.

The Chairman: I am inclined to the view, although it is only my view, that the fact that any advertisers who are going to apply for remission—and they have to establish that they have been hurt, that there is hardship—have a pretty fair set of facts. In other words, the design of the bill was not such that it was intended to be retroactive. The only reason retroactivity occurs is because Parliament took so long to deal with the bill. There was no way that an advertiser who may be hurt could have speeded up the parliamentary process, and therefore there was nothing he could do to protect himself, if he wanted to earn money and do business, except continue to advertise.

Senator Austin: I have had some experience with processing section 17 applications, as have others in this committee, and I do think that Mr. Faulkner's letter at least raises a foundation of some kind for a submission to Treasury Board. There needs to be more than that letter to show hardship, but at least there is a policy statement that requires it to be dealt with.

The other point I want to emphasize is the one Senator McIlraith raised, which is Mr. Faulkner's willingness, apparently unrequested by this committee or, so far as I know, any member of it, to come back in about a year's time and make a presentation to this committee on the operation of the act, and account to us *ex post facto* whether or not some of the policy premises of the government have been served by the legislation.

The Chairman: It was not entirely voluntary on his part. In the first discussion I had with him I asked him if he would do that.

Senator Austin: In that case, he has shown some flexibility and consideration for the Chairman's views, and I would like to suggest to you, Mr. Chairman, that the report, when it refers to Mr. Faulkner's contribution to our review of ministerial undertakings, not be too hard on him, in view of the two aspects we have just mentioned.

The Chairman: Unless the committee says no, I certainly have to refer to the fact that he took away with him two suggestions for compromise, and with what really amounted to an undertaking to discuss them with his colleague. I would expect he did discuss them with his colleague, but we have not heard that directly. I expect he may have indicated to the government leader the fact of his discussions with his colleague and the attitude of his colleague. I do not know how one can get an undertaking from a minister that he will recommend to the Treasury Board that the application for remission be granted.

Senator Austin: That is an impossibility.

Senator McIlraith: It would be improper.

The Chairman: I do not know how a minister could give that undertaking. Maybe I am too naive; I don't know.

Senator Austin: I believe the government leader should be asked to clear up the point, at least to your satisfaction, on whether Mr. Faulkner spoke with his appropriate colleagues, as he told the committee he would.

The Chairman: The situation still remains that he was to come back, and he did not. All I get is a letter addressed to me. Indirectly I learned certain things from the Government Leader; I appreciate that, and I appreciate his ear-

nestness; I think he worked hard on this. However, we made our own way with two ministers, who were most co-operative. I think you were at the meeting.

Senator Austin: Yes, I was.

Finally, Mr. Chairman, may I say that I concur with you generally. I think the committee has achieved a real advance in the public interest. We do have a practical compromise, and I would support the report, in general, which you have outlined to us this morning.

Senator Lang: Mr. Chairman, did you or the Leader of the Government have another letter from Madame Sauvé?

The Chairman: No. I asked him about that yesterday. He was expecting to receive a letter. I will check on it right away.

Senator Lang: There is one other matter I would like to refer to, which does not affect the comments already made by committee members. This is in relation to the question of international relations and what comfort we can take from Madame Sauvé's remarks. I find my expectations there somewhat diminished by the comments now being made by the United States press over the Taiwan incident, particularly the *Washington Star* which says, as quoted in the *Globe and Mail*:

The cowardly, deceitful conduct of the Government of Canada, the intolerably presumptuous and gutless country . . . is trying the world's patience just a little too much.

I hope, in this sort of atmosphere, we can maintain our contacts in Washington, let alone enhance them. That is a gratuitous comment, in any event.

Mr. Chairman, on the question of ministerial discretion, as opposed to parliamentary rule, I agree with the rest of the committee members that this is the heart and core of the committee's reports. I would hope that in your report you would not imply in any way that Mr. Cullen had undertaken to bring in legislation, incorporating an 80 per cent rule; in other words, that we, the committee, had suggested that definition should be made by using a percentage expression.

Senator Beaubien: We were not recommending 80 per cent, you mean?

The Chairman: We had questioned his right administratively to determine "substantially the same" as a percentage.

Senator Lang: Let me rephrase my remarks. As a matter of principle, I believe any legislation that attempts to deal with the general problem by defining a specific percentage is making bad law.

The Chairman: It is against the law?

Senator Lang: It is making bad law. I feel there should be a discretionary element involved to deal with the peculiarities of each particular incident that arises. I believe the courts are the only ones that can then deal with it.

What I do not want to see implicit in our report is that we are recommending that legislation be brought in specifying a percentage. I think what our report does say is that we are recommending that definition, other than ministerial definition, be given to the words "not substantially the same as."

The Chairman: A judicial interpretation?

Senator Lang: I am sorry, I am afraid I am not making myself clear. Mr. Chairman, and my point is escaping you. I do not want our report to imply that the Senate is recommending a definition of those words by the insertion of a percentage figure.

Senator Walker: That is a good point, sir; 80 per cent should be left out.

The Chairman: So far as the bill the minister is going to introduce at the next session is concerned, he was very specific in his undertaking; that is, he said it would define "not substantially the same as" but it would continue and add the requirement of an 80 per cent content difference because that was in accordance with government policy.

Senator Lang: The minister may say that and quite properly so, but if you are quoting the minister I would prefer that you cease the quotation at the word "definition".

Senator Walker: In other words, we are in favour of the minister introducing a bill but we definitely are not in favour of it being 80 per cent. Surely the 80 per cent can be in your report.

The Chairman: We are not saying that we are in favour of the 80 per cent. What we are saying is that we are in favour of legislation rather than have the exercise of ministerial discretion. Anything that is legislated we have the right to attack.

Senator Walker: You can leave out the 80 per cent in your report.

The Chairman: I have charged senators at different times about being "scissors-happy" when they quote from material and only quote the favourable part. While it may be all right as a politician, it is not all right as a senator. I do not want to present something now that is different.

Senator McIlraith: Mr. Chairman, I believe you have quoted Mr. Cullen very fully and accurately and you must stick to those quotations. It is when the sentence comes that the Senate is satisfied with the undertakings and so on; we do not need to repeat the 80 per cent at that point. However, in the undertakings you must quote him accurately and fully.

The Chairman: I cannot carve up what he said.

Senator McIlraith: No, you must quote him fully and completely.

Senator Lang: I believe we are on to a red herring, Mr. Chairman. I do not care how much you quote him but I do not want our report to say that we recommended the minister bringing in an "80 per cent" definition. We want him to bring in a definition.

Senator Walker: What do you say in that respect, Mr. Chairman?

Senator Laird: Would you read us what you said? It is probably quite satisfactory and would satisfy Senator Lang.

Senator Austin: Perhaps we could hear the whole report, Mr. Chairman, in terms of Mr. Cullen's undertakings?

The Chairman: It reads:

The Committee in its efforts to achieve some common ground whereby the differences between the Committee report and the views and policy of the Government also heard the Honourable Mr. Cullen, the Minister of National Revenue. The report of the Committee was opposed to the exercise of ministerial discretion in the interpretation of the words "substantially the same" as they occur in Section 19, Subsection 5, of the Income Tax Act, on the basis that fixing a percentage of content difference between a periodical published in Canada as against one published outside Canada was a legislative act and not to be determined by ministerial discretion.

The Committee in its report decided that a provision by way of amendment to C-58 should be recommended whereby the interpretation of the words "substantially the same" must be referred to the Federal Court for interpretation even before assessment, after which time the taxpayer had a statutory right of appeal.

The Minister, when recently before the Committee stated:

HON. MR. CULLEN: "I would prefer it in legislation; I am prepared to introduce legislation under a notice of Ways and Means Motion to define "not substantially the same".

THE CHAIRMAN: Without reference to the 80 per cent?

HON. MR. CULLEN: In the concession I am making now, most assuredly I would define "not substantially the same" in the way Government policy has in effect defined it, the way my Department has interpreted it, the backing I had of my colleagues. What we mean by "not substantially the same" is 80 per cent different; otherwise we might as well tear up the bill.

HON. MR. CULLEN: I mentioned putting it into legislation primarily because I think from sober second thought suggestions here that if we put it into regulations it is very easy for a Cabinet, by Order in Council, to change the 80 to 90, or change it to 100.

HON. MR. CULLEN: I am giving that undertaking to introduce a Bill to define "substantially the same".

SENATOR AUSTIN: In the next session?

HON. MR. CULLEN: Yes."

With this undertaking by the Minister to introduce legislation at the next session of Parliament to define "substantially the same" including therein the 80 per cent content difference, Parliament, both the Commons and the Senate, will have the opportunity to challenge the definition and the 80 per cent content difference requirement included therein. On the other hand, the Committee provided for an appeal to the Courts as of right under C-58 on this point of interpretation by the Minister for a publisher who is defined as a person who has or proposes to have the exclusive right to produce and publish issues of a newspaper or periodical for such purposes.

The undertaking to define by statute removes the exercise of ministerial discretion and affords Parliament the opportunity to challenge the 80 per cent content difference even as the committee amendment was intended to do. Under the Committee amendment, the Court would be able only to deal with—

Somehow or other in putting this together we seem to have lost the next page, but I can tell you that the rest of it

is only to deal with the particular case on the particular facts of that case, and it would not establish any jurisprudence. So that is just stressing the difference.

I certainly don't think, in what I have read, that I have recommended the 80 per cent inclusion.

Senator Walker: No, you have not.

Senator Flynn: What is the conclusion of the report on that specific aspect?

The Chairman: That in the circumstances and having regard to the undertaking which removes the ministerial discretion, we will not insist on our amendments contained in the report.

Senator Flynn: I think Senator Lang would like to add there: "without necessarily approving the definition which the minister has indicated he would present."

The Chairman: Well, I can certainly add a sentence to that effect.

Senator Flynn: That is the point Senator Lang wanted to make, I think.

The Chairman: I can say that our approval is not to be taken as approving the 80 per cent content difference.

Senator Walker: Very good.

Senator Flynn: That is good.

The Chairman: I do say rather directly that under the legislation it would be open to the Senate and the House of Commons to challenge the 80 per cent content difference.

Senator Lang: I do not like even to presume that it would be 80 per cent. He might want to define it by the weight of the magazine or something. I do not care how he does it. I just do not want that 80 per cent, which is government policy, to be mixed up with the principle of definition by Parliament or by the courts.

The Chairman: We can do that when the bill comes before us. The Commons may do it. I don't know.

Senator Austin: Mr. Chairman, I understand that your point is simply that the Senate should be silent on the issue of a percentage of content and take no sides on that aspect.

The Chairman: In our report, yes.

Senator Walker: And you will add that sentence in order to make it clear that that is so.

The Chairman: Yes. Is there anything else? I have some writing to do and I should like to get this completed some time today. We cannot afford to take much more time because we have to move one way or the other. We do not want to leave ourselves open to the suggestion that we are deliberately holding up or delaying the presentation of our second report.

Senator Flynn: Mr. Chairman, on the question of *MD* I understand that the report would give up the amendment on the basis that there would be a remission, possibly. Is that so?

Senator McIlraith: No. We would just give it up.

The Chairman: *MD*, of course, has no right. The advertisers are the ones affected.

Senator Flynn: I am not discussing that. I am asking whether the amendment we made because of *MD* would be given up on the basis of remission.

The Chairman: I understood that the suggestion was that the advantages in the undertakings outweighed the consideration of *MD* and what we recommended. We recommended that they be given an extension of time.

Senator Flynn: Not in the report. In the report we recommended to keep the exception.

The Chairman: Yes, to remove the repeal provisions. Yes.

Senator Flynn: Now we are giving it up on the basis of the undertaking that consideration will be given to remission of the taxes.

Senator McIlraith: No, that is not so.

Senator Flynn: On what basis is it, then?

Senator Beaubien: We are just giving it up.

The Chairman: I would like to say that.

Senator McIlraith: No, we cannot say that.

Senator Flynn: Why are we giving it up, then?

The Chairman: We are really giving it up, the suggestion is, to get the other advantages.

Senator Flynn: Which ones?

The Chairman: Legislating on definition.

Senator Flynn: Because the amendment would be unimportant, is that it?

The Chairman: Yes. There are only two groups that have any right to complain.

Senator Flynn: It seems to me that this amendment was the one the ministers were rather willing to accept, generally speaking.

The Chairman: I thought so, too, but Mr. Faulkner has not seen fit to give me any advice on it.

Senator Macnaughton: Could we consider your written report, say, at three o'clock, Mr. Chairman?

The Chairman: We might, tentatively, say three o'clock, although I might not be ready at that time.

Senator Manning: Mr. Chairman, in Madame Sauvé's commitment to the committee did she indicate whether her thinking was along the line of a departmental committee, or a committee including ministers, or a committee independent and outside altogether? Was there any indication of her thinking given along that line?

The Chairman: Here is what she said. I put some questions to her. She had written a letter to the government leader in which she indicated that she was prepared to set up a committee. Here is what I have in the report with respect to questioning her:

As to the suggestion by the Minister of Communications on the matter of international relations that a committee or a body of people be set up with responsibility for negotiating with representatives from the United States, she had referred only to the subject of commercial deletion. It was suggested that such commit-

tee should cover the whole range of broadcasting. This, she stated, would be difficult as a committee is already set up to discuss the matter of commercial deletion and this is quite different from the matters we are dealing with in C-58. However, she showed that she was well aware of the general problem and that it was more embracing than commercial deletion.

Her statements on this point are as follows:

THE CHAIRMAN: "... the statement you have made; that is, that in the interests of resolving a possible conflict in the field of broadcasting, you would assist in establishing a committee or a body of people who would have the responsibility for negotiating with representatives from the United States. The only thing that bothered me about that was that your paragraph limits this to commercial deletion. I think, and this is the view of the members of the committee, that it should cover the whole range of broadcasting.

And then she said:

I think that would be difficult ... I don't think that the two questions should be lumped together. I don't think they belong together, and I am afraid that despite the fact that the senators are preoccupied by international relations, as I am too I think the best thing to do, if you want those international relations to be preserved in these particular talks, is to make these two questions separate. Commercial deletion should be discussed with the representatives of the regulatory body in the United States and ours, and people from the External Affairs Department, the State Department and the relevant technical people. I think it is much more conducive to better relations between our two countries to have these two questions separate. It seems to me that it would be very difficult otherwise, because Bill C-58 is not at the present time being discussed in that forum or in that committee, and Mr. Vine himself (the United States representative), when he was appearing before the Senate Committee, giving the report on Canadian matters, did say that on the occasion of these meetings between the FCC and CRTC and other people there was a reference made to Bill C-58, but it was pointed out by the Canadians that this was an internal matter having to do with the Department of National Revenue and fiscal policy and therefore that it should not be discussed at the same time as commercial deletion. He indicated to the Senate Committee that he agreed with this position, and that he had noted it and agreed that these two questions should not be discussed together.

That is the United States representative's view.

I think it would be much more conducive to clearing these matters that we have between us if they could be discussed in separate forums.

Senator Manning: But Madame Sauvé did not give any indication of her thinking on the type of committee that would be set up for this specific purpose. This is not a subject matter of our report, admittedly, but it seems to me that there is quite an important point here. It is one thing to have a committee made up of departmental officials, simply reflecting the policy position that the department has already established; it is another thing if you have representatives of the government on it who are in a position to make changes of policy if their judgment is carried by the discussions. A third possibility, however, would be an independent committee outside the depart-

ment altogether. I just wondered if Madame Sauvé had indicated what her own thinking was.

The Chairman: It did not develop that far, because our two foreign policy men, Senator Macnaughton and Senator Lang, became so enamoured of the presentation that Madame Sauvé was making that they just acknowledged their great respect and regard for her and were ready to go along with what she said.

Senator Lang: Please speak for Senator Macnaughton!

Senator Macnaughton: I still like her.

The Chairman: I do not think I have misquoted her. I have the text upstairs in my office.

Senator Macnaughton: She said, at the time, that she had gone as far as she could. It was on the spur of the moment; after all, she was speaking as a minister, and it is unreasonable to expect her to have to go further.

The Chairman: Well, she did approve of the principle of setting up a committee, or a body of people, who were interested in the whole broadcasting field. She did approve of that, and talked about the idea that it should be a separate committee, and not tied into commercial deletion. I can understand that, because commercial deletion raises entirely different issues.

Senator Austin: Mr. Chairman, would it not be of advantage at this point to pick up Senator Macnaughton's suggestion that we adjourn our discussion now, let you complete your report, and then we can continue our discussion once we have that report in front of us?

The Chairman: All right. You understand that the matter of getting an adequate number of copies to distribute is going to be quite a job, even by 3 o'clock.

Senator Smith (Colchester): Should we not leave the time of the meeting to the call of the Chairman?

The Chairman: Let us say, tentatively, 3 o'clock. Do not be disappointed if we are not ready at that time, but it will be some time this afternoon.

The committee adjourned.

The committee resumed at 3.30 p.m.

The Chairman: Honourable senators, have you had an opportunity to read the report? I can tell you that at 12.15 p.m. the last four pages had not yet been created. That is why I wanted you to read them particularly, to see whether or not they made sense. At 9.30 this morning they told me that if I did not have everything ready by 10 o'clock, I would not get them until tonight. I said "Who says so?" So we have them, and we will be ready tonight with the extra copies.

Unless there is some opportunity to do it before the Senate adjourns at 6 p.m., we will present the report first thing at 8 o'clock. That is subject to the committee's approving of it, of course.

Senator Walker: Are you going to present it tonight?

The Chairman: Tonight at 8 o'clock. I think either Senator Lang or Senator Molson indicated that while we approved the undertaking to introduce a bill to define

"substantially the same," we did not want to go so far as to indicate that we were approving of the 80 per cent.

Senator Molson: That was Senator Lang.

The Chairman: You will find that on page 7, in the fourth paragraph. I say:

The Committee will not insist on its amendment contained in its first report but is not to be taken by such action to have—

It says "approval"; it should say "to have approved":

—to have approved of the provisions of the proposed amendment where it refers to the 80 per cent content difference.

So we have emphasized that. You will again find it emphasized at the bottom of the page, and going over on to the next page. It says:

The Committee is now prepared not to insist on its amendments on the several points covered by the undertakings outlined above but is not to be taken to approve the 80 per cent content difference, and is happy that this result was able to be achieved.

I thought that since the two ministers responded so well—they maintained their positions—we should say something about it; and you will notice that I do. I say:

The two Ministers . . . in this regard were understanding and co-operated in the effort to resolve the differences in viewpoint as between the report of the Committee and the Government and this was much appreciated by the Committee.

Do you see anything wrong in saying that?

Senator Laird: No.

The Chairman: There is another question. There is some comment at the bottom of page 9. I would like to get the views of the committee on that. I have two thoughts about it. My first reaction to the behaviour of the Secretary of State of Canada, the first time he was before us, and, secondly, his behaviour since, was that it has been arbitrary and slighting. He was going to come back to us after last Thursday morning's meeting. I expect he did talk to the government leader; but if he said he would come back to the committee with answers, I think he should have, and he should not have deputed anyone. You get to the stage where you wonder whether it is worth putting him in the pillory.

Senator Laird: Mr. Chairman, I wonder just one very practical thing in that connection. We all know that he deserves this adverse comment, but from a practical standpoint I am wondering if it might subsequently prejudice a person who is after a remittance—

The Chairman: Does it serve any purpose?

Senator Laird: Well, that's the point. I am not being dogmatic, but the thought did occur to me that perhaps it might prejudice someone after relief by way of showing hardship if the minister took a dim view of it, and so stated that in Cabinet, and so on. I give it out for your thinking and that of the committee.

Senator Walker: This is setting out the truth. With a person who has been as dogmatic as he has, and self-opinionated, I do not think I would take out those words, because you do not appeal to him by weakness or kindness. You just have to tell him the facts. That is the only

thing he understands. It should be noted. As a matter of fact, it resulted in a great deal of trouble for everyone.

The Chairman: Instead of saying "It is with regret that the Committee must note . . ." perhaps we should say, "It should be noted that . . ."

Senator Walker: That would be satisfactory.

Senator Manning: In view of the fact that we are appending a copy of the minister's letter, do you think it necessary to include that excerpt in the report itself?

The Chairman: I thought it was the only part of the report that had even a seeming connection—

Senator Manning: It is so remote as to be meaningless.

The Chairman: But there isn't anything else in it—

Senator Manning: Would that not be covered in the paragraph, where you refer to the fact that a letter has been received from him? You say:

and while it may indicate a sympathetic approach and appreciation of the work of the Committee,

Is that not saying practically the same thing as anything that can be taken from the excerpts? The best one can read from the excerpt is that perhaps there is some sympathetic approach. I am referring to page 10, the paragraph immediately following the excerpts from his letter. It seems to me that that says enough in itself to summarize the excerpts.

The Chairman: Of course, by quoting those two things, anyone who reads this intelligently can compare the contribution of the other two ministers with his contribution. That is the only part of it that we could call his contribution.

Senator Laird: It is not that we are damning him with faint praise, but that we are damning him practically with no praise.

The Chairman: If you assume that some of the people who read this are intelligent, they will certainly compare the contributions. He does nothing but say what he says in those two paragraphs. I would be inclined to leave them in and change the language on that "regret."

Senator Austin: Mr. Chairman, so that I am sure of what you are doing, you are going to drop the words, "It is with regret that the Committee must note—"

The Chairman: No. We will say, "It should be noted that the Secretary of State . . ." and go on from there.

Senator Walker: It is very factual.

The Chairman: And drop, "It is with regret".

Senator Molson: I wonder if we have to append the letter, if the extracts are not more in keeping with the rest of the report, in the case of the other ministers. I am wondering whether or not that is all we need.

The Chairman: The only thought in my mind was that the Minister of National Revenue made a contribution, and Madame Sauvé made a contribution. This is Faulkner's contribution. You may read it, but I do not think you would rate it for very much. Anyway, since he wrote the letter to me, I thought it should appear somewhere. I do not know what comment he will make about not quoting his letter.

Senator Austin: Mr. Chairman, you are not proposing to append the letter of July 13—

The Chairman: I am going to append the letter to the report.

Senator Lafond: Mr. Chairman, I have two comments. On page 8, in the second paragraph, on line two, it says:

One such amendment dealt with the position of the magazine *MD of Canada*

We seem to zero in on *MD* there, whereas in our initial report we stated:

in respect of publications such as *MD*

I think our initial expression was by far the best.

The Chairman: Yes, I think we should say, "*MD of Canada* and similar magazines."

Senator Lafond: Something of that sort, rather than isolate it. My second comment is on page 9, the second last paragraph, the last line, which says:

... the Committee is prepared to withdraw these several proposed amendments.

I may be wrong, but my interpretation is that we are considering withdrawing two proposed amendments. If that is the case, should we not say, "these two proposed amendments," instead of, "these several proposed amendments"?

The Chairman: I suppose a definition of "several" is anything more than one, is it not?

Senator Lafond: Probably, but since to some extent the committee is in a sort of withdrawal operation perhaps we should limit the withdrawal if we can.

Senator Molson: We are withdrawing them all, are we not? We are not proposing any amendments, are we?

The Chairman: No, but here we are talking about two amendments. We are talking here about the two amendments dealing with *MD of Canada* and retroactivity, so if it is clearer to say, "these two proposed amendments," I do not see any objection.

Senator Walker: I think that is a good point.

The Chairman: Is there anything else?

Senator Austin: I have one comment on page 9 that I would like to make. It is in the middle of the page, the paragraph starting, "Your Committee has had to weigh"; I refer to the sixth line down, where it says:

in restoring the rule of law and the supremacy of Parliament...

The word "restoring" is rather accusatory. I wondered if it had been chosen deliberately.

The Chairman: You could say "affirming".

Senator Austin: I would rather say "affirming" than "restoring", and take the aggression out of the idea.

The Chairman: Is that satisfactory?

Hon. Senators: Agreed.

The Chairman: Have you anything else, Senator Austin?

Senator Austin: No, that is all I have noticed.

The Chairman: Senator Manning?

Senator Manning: No.

Senator Molson: There is an "s" missing at the top of page 8, the third line, where it says, "The two Minister". It has to be plural.

The Chairman: Mistakes will creep in.

Senator Macnaughton: What about the accent over the "e" in "Sauvé"?

The Chairman: I will charge Mr. Jackson with catching the accent in "Sauvé". I would not want to hurt her feelings. Anything else?

Senator Beaubien: I think it looks pretty good. I do not see anything to complain of.

The Chairman: Anything more?

Senator Molson: I still wish you could have ended on a note saying that "we affirm that the principles have been sustained", and that is why we have done this. I think this is a wonderfully worded report; it is absolutely first class. I have no objection to flogging even a dead horse, and I would love to put in that the whole issue was one of principle, that the principles have, we feel, been satisfied by a different method than the amendments, and this is the course of action we have accepted.

Senator Macnaughton: You mean a restatement at the end.

Senator Molson: At the very end, saying that this was a matter of principle with us, which we stated; that we think the principles are satisfied; so this is the action we have taken. No doubt it should be in better wording than that.

The Chairman: Where are you proposing we state it? Would you suggest in the concluding paragraph?

Senator Molson: I would like to end on that note, saying that this was the exercise, that we have satisfied the matters of principle, and rather than amending the bill we chose this course of action, that we are prepared to withdraw our amendments.

The Chairman: In other words, you would say that the design of our amendments was addressed mainly to the matter of certain principles, and we are satisfied that these principles have been acknowledged in the undertakings we have accepted.

Senator Molson: "Acknowledged" or "sustained," and then say that the committee reports the bill without amendment.

Senator Macnaughton: What about some wording like this: "Throughout the examination of the bill the committee has been concerned with"?

Senator Macnaughton: May I move the adoption of this report, as revised?

The Chairman: I just want to settle this wording.

Senator Walker: May I suggest a conclusion, Mr. Chairman? After the word "amendment" could we say: "satisfied as we are that the principles which we supported are fulfilled by the undertakings of the government aforesaid"?

The Chairman: In other words you would say "we are satisfied with"?

Senator Walker: Yes, "with the principles which we supported", or "which we advocated," or "recommended."

The Chairman: Would you say, "which influenced our consideration"?

Senator Walker: Fine; very good.

The Chairman: Then we would say, "We are satisfied that the principles which influenced our consideration of Bill C-58 and were reflected in our original report are satisfied by the government undertakings."

Senator Walker: "... by the aforesaid government undertakings," because that is really what it is all about now, isn't it?

Senator Laird: Yes.

The Chairman: And would you say, "are satisfied by the adoption of the government undertakings," or perhaps "are met"? Name your word.

Senator Walker: "Met" would be simple and to the point, yes.

The Chairman: All right. It will read: "We are satisfied that the principles which influenced our consideration of Bill C-58 and which were reflected in our original report are met by the government undertakings"; and we will put that in just before what is the last paragraph now so that we end with the words "without amendment."

Senator Molson: I thought you were considering putting it, "For the reasons above stated," and then this addition, then conclude with the words; "the committee now reports the bill without amendment." Would that not work out quite tidily?

Senator Walker: That would be good because it compresses the whole thing.

Senator Molson: It gets it in at the very end. That is the point I am trying to make.

Senator Walker: Yes, that would be helpful.

The Chairman: Are we satisfied with it as it is now, honourable senators? Is that all right? We will leave the language of the last paragraph as it is after that insertion, but we must end up with the last words being that "the Committee" reports the bill without amendment."

Hon. Senators: Agreed.

Senator Macnaughton: May I move the adoption of the report?

Senator Flynn: I would record my objection, on division, for two reasons, Mr. Chairman: First, that I was opposed to the bill itself because I thought it was not a good bill; second, I do not like the implication that every time a committee recommends certain amendments it must then be content with only undertakings. I know that may be the practical thing to do, but in principle I cannot support the adoption of the report.

Senator Smith (Colchester): Mr. Chairman, I wish to record my objection for the same reasons.

Senator Walker: Mr. Chairman, I would have done that at one stage, but we have to make the best of a bad job,

and, while we are violently opposed to the bill as it stands, nevertheless, having received through your good offices and others the undertakings to make the amendments, I am now completely in favour of this report because we could not do any better under the circumstances. We have tried our best.

The Chairman: That is right, and we could lose.

Senator Walker: We could lose everything. We could have won this vote last week or the week before, but, you know, there was the talk of settlement and an awful lot of our people left town. So this is the best we can do.

The Chairman: Voters move in and voters move out. What we should have done was to establish a residence rule! Is everybody in favour?

Some Hon. Senators: Agreed.

Senator Flynn: On division.

Senator Smith (Colchester): There are at least two against, Mr. Chairman.

The Chairman: I don't know that we should have "on division." What does it mean?

Senator Flynn: It means whatever you want.

The Chairman: It means that there were some dissenters.

Senator Flynn: Yes, a few.

Senator Walker: It is a pity that we have to do it that way.

Senator Flynn: It is in the minutes.

Senator Molson: It is in the record, but not in the report.

Senator Flynn: It is not in the report, but it is in the minutes of the committee.

The Chairman: We do not have to say that it was a unanimous report.

Senator Flynn: You do not have to mention that in the report, Mr. Chairman, I agree, but the minutes of the committee should record the dissenting voices; that is all.

The Chairman: The verbatim report of this meeting will record what you say. If you say, "On division," it will be reported that way.

Senator Flynn: That is what I want.

The Chairman: So, then, the motion carries, on division, for the adoption of the report and for the Chairman to present the report to the Senate.

Senator Flynn: That is right. The last words of this meeting will not be *in camera* because the adoption of the report is something public. That is why I wanted the minutes to record my dissent.

The Chairman: Then tonight I will present the report and it will appear that the report is without amendment. Therefore, in the ordinary way the Speaker will ask when third reading shall take place, and I will want to interject at that time to say that in view of the observations and for obvious reasons I would like the opportunity to explain.

Senator Flynn: Certainly. There is no problem with that.

The Chairman: Very well. Then we will make those changes, and that is it. The idea is that it would be presented at eight o'clock.

Before we adjourn there is one other thing I should like the committee to settle. We have recorded in the verbatim reports of this committee all of the proceedings that have taken place since the report was referred back to the committee.

I have held that transcript, having instructed the reporters to give me the original typescript and the carbon copy. There are no more. I think now that the whole record should be printed. Is that satisfactory?

Senator Flynn: Agreed.

The Chairman: It is agreed, and it so appears on the record.

Senator Flynn: Senator Molson is wondering if, since the meeting has been held *in camera*, he has said things that he would not otherwise have said. However, for myself, anything I say *in camera* can always be printed.

The Chairman: Thank you. I hope this ends our labours for this session. I am glad that we concluded on a happy note.

The committee adjourned.



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1974-1976

THE SENATE OF CANADA

STANDING SENATE COMMITTEE

ON

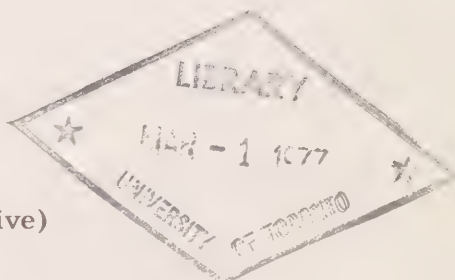
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The Honourable SALTER A. HAYDEN, *Chairman*

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- Baillie, James C., Petitioner Counsel
- Barrett, J., Administrator, Indian Minerals Program, Indian and Northern Affairs Dept.
- Barrigar, R., Chairman, Committee on Bill C-2, Patent and Trademark Institute of Canada
- Beall, Earl, Vice-President, General Manager, WGR-TV
- Bélanger, M., President, Montreal Stock Exchange
- Bellman, W. E., Vice-President, Western Approaches Ltd.
- Bennett, Gordon L., Chairman, Textile and Clothing Board
- Bertrand, R. J., Assistant Deputy Minister, Director of Investigation and Research, Bureau of Competition Policy, Consumer and Corporate Affairs Dept.
- Beuth, Philip, Vice-President, General Manager, WKBW-TV
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- Biddel, J. R., Treasurer, National Automotive Trade Association of Canada
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- Boyle, Harry J., Chairman, Canadian Radio-Television Commission
- Brady, F. P., Vice-President and General Counsel, Dominion Textile Ltd.
- Bray, Carne H., Executive Vice-President, Federated Council of Sales Finance Companies
- Bruck, G. L., Chairman, Bruck Mills Limited
- Bryan, F., Executive-Director, Apparel Manufacturers Council of Canada, Toronto
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- Butler, G. D., Vice-President, Canadian Federation of Insurance Agents and Brokers Association
- Cafik, Norman, Parliamentary Secretary to the Minister of Consumer and Corporate Affairs
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- Campbell, D. L., Special Committee Chairman, Canadian Bar Association
- Campbell, Donald G., President, Chief Executive Officer, Maclean-Hunter Ltd.
- Camu, Dr. Pierre, President, Canadian Assoc. of Broadcasters
- Cannon, Michael L., Director of Operations, National Hockey League Players' Association
- Carroll, Julian, Executive Director, Canadian Federation of Amateur Aquatics
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- Cochrane, R. W., Committee Member, Canadian Chamber of Commerce
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- Crawford, Bradley, Counsel, McCarthy and McCarthy, Canadian Bankers Assoc.
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- Cunningham, John, Executive Manager, National Assoc. of Tobacco and Confectionery Distributors
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- Dalpé, Paul-Émile, President, Centrale des Syndicats Démocratiques
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- Fish, Albert, Past President, Chairman, Competition Policy Committee, Canadian Real Estate Association
- Fishman, Dave, Executive Director, Canadian Lacrosse Association
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- Foster, M., M. P., Parliamentary Secretary to the Minister of Energy, Mines and Resources
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- Germain, L., Senior Liaison Officer, Olympic Federal Liaison Unit, Planning and Evaluation Division, Administrative Policy Branch, Treasury Board Secretariat
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- Gibson, Dr. William C., Editor, MD Publications (Canada) Ltd.
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- Goldie, D.M.M., Q.C., Canadian Arctic Gas Pipelines Limited
- Gorman, G.J., Q.C., Counsel, Foothills Pipe Lines Limited
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- Harvey, Gavin, Canadian Association of Equipment Distributors
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- Jrafstein, J. S., Q.C., Counsel to CITY-TV

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- Kape, Morty, President, Triton Industries Ltd.
- Karp, Allen, Association of Canadian Franchisors
- Kenny, F. S., Director, Government Relations, Du Pont of Canada Ltd.
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- McCracken, Wayne, Legal Counsel, Institute of Canadian Advertising, Assoc. of Canadian Advertisers
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- McDonald, W. H. T., Petitioner, National Commercial Bank of Canada
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- MacKim, Bradley, Publisher, MD Publications (Canada) Ltd.
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- Maclaren, A. K., Executive Director, Canadian Trucking Association
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- Myslowka, Myron, Regional Director, Ontario and Maritime Regions, Textile Workers Union of America
- Neelands, D. G., President, Trust Companies Association of Canada
- Newall, J. E., Executive Vice-President, DuPont Canada Ltd.
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- Ritchie, Gordon, Acting General Director, Office of Industrial Policy, Industry, Trade and Commerce Dept.
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- Sauvé, Leo, Executive Secretary, Greater Ottawa Truckers Association
- Schreider, Gary, Legal Counsel, Canadian Amateur Hockey Association
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